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# CAN RUSSIA REFORM? ECONOMIC, POLITICAL, AND MILITARY PERSPECTIVES

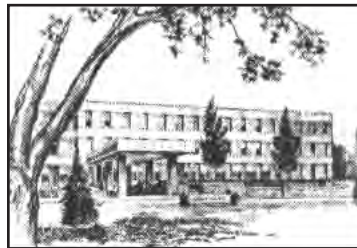
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Stephen J. Blank  
Editor

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## **Strategic Studies Institute Monograph**

# **CAN RUSSIA REFORM? ECONOMIC, POLITICAL, AND MILITARY PERSPECTIVES**

**Stephen J. Blank**  
**Editor**

**June 2012**

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## CONTENTS

Foreword .....	v
Introduction .....	vii
1. Russia's Choice: Change or Degradation?.....	1
<i>Lilia Shevtsova</i>	
2. The Impossibility of Russian Economic Reform: Waiting for Godot .....	37
<i>Steven Rosefielde</i>	
3. Reform of the Russian Military and Security Apparatus: An Investigator's Perspective .....	61
<i>Mark Galeotti</i>	
About the Contributors .....	107



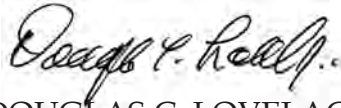
## FOREWORD

The nature of the Russian state and the economy it superintends raise more than academic questions, for if we understand the nature of the state and its subordinated economy, we can then form an accurate vision of what Russia's overall policy and strategy will be. We may say, euphemistically, that the beginning of wisdom in understanding Russian policy and strategy is to grasp the answers to key questions concerning the nature of its political and economic processes. In line with that approach to understanding Russia, the Strategic Studies Institute (SSI) is pleased to present the first volume of papers from its annual conference on Russia conducted on September 26-27, 2011. The resulting papers go straight to the heart of the most important questions concerning the nature of the state and the possibilities for its economic reform.

In the wake of Vladimir Putin's return to the presidency of Russia, those are, indeed, the crucial categories of questions we must answer. SSI's annual conference on Russia represents the institute's efforts, together with those of a distinguished array of other U.S., European, and Russian scholars, to answer the questions and discern the trajectory of Russian developments as they occur. We do so in the belief that this knowledge is not only valuable in its own right, but that it also provides a valuable resource for experts on Russia, interested laymen and, most of all, policymakers who must formulate policies dealing with and/or affecting Russia, a country that deliberately tries to remain opaque to foreign observers despite its many changes. Accordingly, we hope that the papers presented here and in subsequent volumes will both enlighten and edify readers and stimulate the effort to



understand and deal with one of the most important actors in international affairs today.

A handwritten signature in black ink, reading "Douglas C. Lovelace, Jr." in a cursive script.

DOUGLAS C. LOVELACE, JR.  
Director  
Strategic Studies Institute

## INTRODUCTION

These papers represent the first in a series of papers taken from the Strategic Studies Institute's (SSI) fourth annual Russia conference that took place at SSI's headquarters in Carlisle, PA, on September 26-27, 2011. As such, they also are part of our on-going effort to make sense of and clarify developments in Russia. The three papers presented here offer attempts to characterize first of all, the nature of the state; second, the prospects for economic reform within that state—perhaps the most pressing domestic issue and one with considerable spillover into defense and security agendas as well—in contemporary Russia; and third, the nature and lasting effects of the defense reform that began in 2008. The papers are forthright and pull no punches, though we certainly do not claim that they provide the last or definitive word on these subjects.

Nevertheless, for our readers in particular these are the most crucial issues as we go forward, particularly after the recent reelection of Vladimir Putin as President. Can or will Putin change the nature of the state and economy? Though many doubt that he either wants to, can, or will undertake the necessary transformations of the political system, his actions and those of his colleagues who today steer the ship of state will tell us the answers to those issues. The same question applies with equal, if not greater, intensity to the nature of the Russian economy. Likewise, it is essential for us to grasp how the military reform launched in 2008 has changed and affected the Russian armed forces and what their profile, outlook, composition, and organization, not to mention their doctrine, will look like going forward.

These are critical questions for experts and policymakers alike. Interested laymen no doubt will also find the proceedings of considerable interest, if not actually provocative in their assessments. But as we have noted, we do not aim at providing answers for eternity, but at enhancing the understanding that only comes about through controversy and reflection. We therefore hope that the following essays will not only pique our readers' interests, but also force them to think on a deeper plane about the inherent challenges that Russia presents to us.

Professor Stephen J. Blank  
Strategic Studies Institute

## CHAPTER 1

### RUSSIA'S CHOICE: CHANGE OR DEGRADATION?

Lilia Shevtsova

The December 2011 protests have proved that Russia has come to the point when the most educated and forward looking segments of the society are starting to realize that the personalized power system's continued existence is leading to national and social degradation with potentially dramatic consequences for the country. But **this growing awareness has not yet produced** any alternative that could secure broad political and public support, and Russia thus continues down its destructive road. Moreover, Vladimir Putin's ruling team is going to reproduce the system during the December 2011 and March 2012 "managed" elections.

In this chapter, I reflect on the nature of Russia's political system, the external factors influencing its existence, the strategic implications of its degradation and the prospects for its transformation.

#### SURVIVING WITHOUT CHANGE

Russia let slip an opportunity for liberal transformation at the moment the Soviet Union collapsed. A number of circumstances complicated Russia's transition to liberal democracy: history, traditions, culture, an anti-Western nationalism, the need to accomplish four revolutions (create a free market, build a new state, democratize the regime, and let go of an imperial identity), reluctance to part with any sliver of its sovereignty in order to integrate into Europe, and Eu-

rope's own unwillingness to offer effective external incentives for Russia's transformation. At the start of the 20th century, it was Russian society that was not yet ready to leave the traditional system behind, but at the start of the 1990s, it was the Russian elite that were not ready for this transformation. As the communist era came to an end, the blame for the failure of Russia's liberalization appeared to lie largely with the seemingly liberal and democratic-minded groups, who proved unable to offer society an alternative and placed their hopes instead on a leader (Boris Yeltsin), thus paving the way to a revival of the personalized power model.

The Yeltsin, Putin, and Dmitry Medvedev presidencies saw the consolidation of a system based on three fundamental principles borrowed from the past (the Russian Matrix): personalized power, a merger between government and property, and the atavism of great power mentality (*derzhavnichestvo*) with its claims to "spheres of influence." This system's builders gave it a makeover, however, wrapping up the old concepts in a new packaging that imitated the principles on which Western civilization is based. One cannot deny the Russian elite's sense of irony anyway: they managed to create an alternative to liberal civilization by imitating it. New Russia's rulers had not only to establish their hold on power, but also to ensure that no challenge to their monopoly will arise and they do so through the crucial instrument of managed elections. The Russian elite took the liberal election principle of "certain rules and uncertain results" and turned it on its head, putting in place an electoral system based on "uncertain rules and certain results." Elections devoid of political competition but where the authorities manipulate public opinion have become a

means for guaranteeing the ruling elite's monopoly hold on power.

One might ask, what happened to that other pillar of the traditional matrix, militarism, which over time had become such an intrinsic part of the existence of Russia's state and society? Historically, militarism, and more specifically the constant search for an outside enemy, was not just the cornerstone of Russian foreign policy, but also a means of consolidating elite control over the population and part of daily life. After the collapse of the Soviet Union, the Kremlin abandoned the doctrine of total military confrontation with the West, but retained aspects and symbols of militarism, which still often impose their logic on the current system.

Today's new-look Russian system presents several salient features, in particular the hybridization of economic, social, political, and foreign policy. This is reflected in adherence to mutually exclusive principles, such as market and state control, paternalism and Social Darwinism, and cooperation with and rejection of the West. Ambiguous principles, absence of a clear direction, the constant game of "Let's pretend!" have become a new Russian way of life. Meanwhile, having abandoned ideology in typically post-modernist fashion, the Russian elite adopted pragmatism as its credo, which it proclaims as its guiding light and source of pride.

The Russian elite has also demonstrated considerable tactical skills. Let us not forget, though, that clever tactics often mask an absence of strategic vision. The authorities swing between repressive action and co-opting of representatives of various social and political groups (nationalists, leftists, and liberals) into the Kremlin's orbit, thus discrediting the political currents

they represent. The Kremlin has long realized that any rhetoric and slogans can be manipulated for the purpose of nipping the emergence of any opposition in the bud. The elite use the impression of a change in leadership, for example, to maintain its monopoly. Putin did not try to guarantee his hold on power by the blatantly unconstitutional means of running for a third term in office as president, but instead took the prime minister's job and set up a tandem structure with Medvedev, while keeping the real power in his hands—this was a new way of reproducing the same regime. The Kremlin also alternates between Russia's "special path," and a supposed desire for European integration. These constant zigzags and mutually exclusive slogans demoralize and disorient society, undermine its confidence in the future, and leave no solid ground on which any real alternative can develop. In this unclear situation, the authorities look like the only guarantor of stability. This imitation-based system has proven an effective means of maintaining the current ruling team in power. But its categorical rejection of the principles of freedom and competition undermine any hopes for and attempts at renewal and modernization from inside.

Russia's post-modern experiments have disproved a number of axioms on democratic transition and hybrid regimes. The fathers of democratic transition theory held the view that, as Samuel Huntington said, "the halfway house does not stand."<sup>1</sup> One could certainly imagine that hybrid systems built on mutually exclusive principles cannot be stable and will eventually start to wobble. But this kind of political death can be a very drawn-out process, it turns out. Indeed, it can be precisely the existence of these mutually exclusive principles that prolong the life of such hybrids. For ex-

ample, the personal freedoms that let Russia's people live their lives independent of the authorities (under the condition that they do not meddle in politics) and Russia's relative openness to the outside world lead to apathy, emigration, and/or withdrawal into personal life rather than to society trying to expand its freedoms. Instead of helping to shape and develop democratic habits, imitation of democratic institutions and liberal rhetoric only discredits democratic principles. Theorists say that the middle class is the foundation of liberal democracy, but in Russia the middle class provides the support for the centralized state. Another purely Russian paradox that helps to keep the personalized power alive is the destruction of traditions and stereotypes existing before the Bolshevik revolution of 1917. The Communist period eradicated this old mindset, but the Russian society it produced, now atomized and deprived of its traditional social bonds and aspirations, is inclined towards a new form of monopoly hold on power as a means of survival.

The West also plays a prominent part in keeping Russia's authoritarianism alive. The Russian elite's opportunities for personal integration in Western society (as exemplified by Roman Abramovich, former governor of Chukotka and now one of Britain's wealthiest citizens), joint projects between Western and Russian business, the efforts to draw Western intellectuals into the projects of the Russian authorities, and the involvement of Western political circles' in corrupt deals with the Russian elite — all play a part in helping to keep the system afloat.



## RUSSIA AS THE WEST'S PARTNER AND OPPONENT

Foreign and security policy are other instruments the Russian system uses to keep itself going. The nature and role of Russia's foreign and security policy come through above all in Russia's relations with the West. This is only natural, as it is Western civilization that provides the alternative to Russia's political model and at the same time the West is a refuge place for the Russian elite. No matter whether or not Russian foreign policy takes the form of dialogue or confrontation with the West, its aim remains to keep in place a personalized power system that is inherently hostile to liberal democracy. The optimists who get excited every time the Kremlin starts cooperating with Western partners would do well to remember this.

Let us deliberate on how the domestic agenda influences foreign and security policies and makes them its own instrument. The key goal of the Russian system domestically is to preserve the status quo, and first of all, the ruling elite's monopoly on power. Foreign and security policies have to: 1) guarantee a benevolent international environment for the Russian system and its international legitimacy (the latter becomes crucial in the situation when the system is losing its domestic legitimacy); 2) deliver additional drivers for society's consolidation around the authorities; 3) secure economic resources to support the system; and, 4) guarantee ways for personal integration of the Russian elite with the Western society (this goal is new compared with the Soviet survival mechanism).

Foreign and security policies have to pursue contradictory paths. For the outside, these policies have to create the image of Russia as a modern and respon-

sible European state. For the inside, foreign policy has to supply constant justification for the “Besieged Fortress” mentality and secure rejection of the Western standards by the Russian society. This “driving two horses in opposite directions” is actually the agenda of Russian foreign and security policies that the Kremlin has been pursuing with great skill during the last 10 years. This agenda is instrumental for reproduction of the centralized state and personalized power that cannot exist without an alien environment. One thing has to be added: foreign and security policy reproduces fears, phobias, and complexes dominant in the Russian domestic policy, which transfers into the realm of Russia’s relations with other states: suspicion, arrogance, attempts to demonstrate might and at the same time the Kremlin’s lack of vision and ability to forecast the consequences of its actions. One could risk the conclusion that the Kremlin foreign and security policies are more influenced by domestic needs than by the logic of international relations. This is what makes Russia such a difficult partner, forcing other states to view Russian international behavior through the prism of the Russian domestic trajectory. This creates puzzling situations when, from all points of view, Russia acts against common reason, ruining its own reputation as it is doing, for instance, in its relations with Georgia, recognizing the occupied territories as independent states. But these actions could be easily predicted and explained if one will look at the needs of the Russian system and its personalized power.

Over the last 20 years, the Russian elite has developed a foreign policy model that one could define as “together with the West (and even within the West) and against the West at the same time.”<sup>2</sup> Depending on the circumstances at home and abroad, the Russian

authorities shift the emphasis between different aspects of this contradictory model. But no matter what line the Kremlin takes with regard to the West, its main domestic goal remains unchanged: to structure the Russian society on the basis of principles alien to the West. The authorities can tone down this anti-Western inclination during periods of dialogue and cooperation, but will never give up encouraging anti-Western attitudes among the Russian public, continuing to pursue "the Besieged Fortress" paradigm. In analyzing Russia's foreign policy, one should not forget at the same time that this is the policy of the Kremlin, and the country's ruling elite is not representative of Russia as a country. Russian society comprises a wide range of groups, and large sections of the public do not necessarily share the authorities' views on various foreign policy and security issues.

The Kremlin's foreign and security policy has gone through phases corresponding to the stages in the formation of the Russian political system. During the first phase (1991-93), when the Yeltsin team had not yet renounced its highly amorphous democratic aspirations, the Kremlin tried to set Russia on a course of integration with the West. The policy was too contradictory and vague, however, as even during this time Russia's elite, including the liberals, still held on to great-power ambitions and the Soviet behavior model. In fact, during this stage the Kremlin tried to integrate Russia into the West on its own terms.

In a second phase (1993-99), Russia was engaged in dialogue with the West, but at the same time one could see that the Russian elite returned to its usual suspicion with respect to the West. Moreover, the Kremlin started to use elements of containment trying to prevent North Atlantic Treaty Organization (NATO)

enlargement. The Russian system had already taken on its main outlines by this time, with power based around a single leader who relied on a corrupted oligarchy for support. This regime saw elements of the great-power mentality return to the fore.

In a third phase (2000–04), Putin made attempts to establish a partnership with the West based on *Realpolitik*, hoping to become an equal member of the Western club while retaining the monopolist power system in Russia and holding on to its neo-imperial aspirations. James Sherr rightly pointed out that there was in this “a strong geo-economic emphasis.”<sup>3</sup> In Putin’s view, this geo-economic leaning had to become the new basis for returning to the first echelon of the global actors. Although Putin’s version of *Realpolitik* found support in the West, the Kremlin was unhappy with the results in the end. Putin did not see signs that his Western partners were ready to treat him as an equal and endorse partnership with Russia on the Kremlin’s conditions.

In 2004–08, a new fourth stage in Russia’s foreign policy development began. The Orange revolution in Ukraine was a watershed that pushed the Kremlin into taking a more aggressive line in its relations with the West. I doubt that Putin actually believed that Western countries planned and organized Ukraine’s upheavals. Rather, Moscow used the events in Kiev as a justification for its increasing dissatisfaction with the West, this on the back of a burst of self-confidence brought on by rising oil prices and Putin’s growing domestic popularity. The Russian elite had the sense at that moment of a “Russia risen from its knees,” and a large part of the public shared this view. Putin’s team concluded that the time had come when Russia held the upper hand and could dictate its rules to the West.

Dmitry Trenin described the Kremlin's new course as an "imposed partnership" and defined the conditions Putin laid before the West: "Take us as we are and do not meddle in our internal affairs; accept us as your equals; in areas where our interests meet only compromise solutions can be considered. We will make concessions only if you do too."<sup>4</sup> I would add a few more conditions to this list: respect Russia's right to a sphere of influence in the post-Soviet area, conclude with Russia energy-security agreements that would guarantee it long-term contracts for energy supplies and ensure favorable conditions for Russian business in Western markets.

Putin **not only formed Russia's new foreign policy** doctrine but also succeeded in turning it into the main factor in consolidating the Russian society. He definitely felt that foreign policy could be used more aggressively to pursue a domestic agenda. **On the outside**, Putin's doctrine looked like a very contradictory cocktail. Its main theses, set out on various occasions by Putin and Foreign Minister Lavrov, can be summed up as **follows: the existing system of international relations** is outdated, Russia proposes establishing a new tripartite world government together with the United States and the European Union (EU) that can steer the global boat forward, and Russia calls for "networking diplomacy" and a renunciation of old alliances (above all, NATO).

In return, Moscow was ready to take into account Western business interests in Russia. In February 2007, Putin delivered his famous Munich, Germany, speech that was an attempt to force the West to accept the new role of Russia and its terms of partnership. Putin declared that "the world has reached a decisive moment when we need to give serious thought to the

entire global security structure.” This speech was an ultimatum that made clear Russia’s willingness to risk worsening relations with the West if it refused to accept the Kremlin package, i.e., its proposal to revise the rules of the game established after 1991.

This rhetoric made it clear that by 2007 Russia had become a revisionist power. Moscow demanded a return to some aspects of the bipolar world that existed before the collapse of the Soviet Union. In essence, this was a demand to recognize Russia’s right to a new format of neo-imperialist policy. No, this is not imperialism any more. This is a “post-imperialist syndrome,” some would say. I would argue that if the goals of this policy are to influence domestic developments in neighboring countries using not only soft power but tough pressure, this is definitely a variation of imperialism. But at the same time, Moscow tried to avoid the confrontation that characterized the Cold War era.

Before 2004, the Kremlin was satisfied with the role of enabler and spoiler. From 2004, Putin’s team wanted more leverage. In his analysis of the Chinese domestic and foreign policy, Bobo Lo wrote that China has been trying to assert its status as a global player while “absolving it(self) of leadership responsibilities,” which means that China wants “to sit in the front of the car, but doesn’t want to drive.”<sup>5</sup> Putin’s team offered a much more ambitious agenda for Russia: they wanted it to be part of the global leadership and wanted to “drive the car.” True, the Kremlin planned to drive the car together with the United States and the EU (though, the Russian team never took the EU seriously).

Most Russian politicians and experts at the time based the Russian foreign policy revisionism on geopolitical arguments—Russia’s growing power, West-

ern weakness, the need to ensure respect of Russia's national interests, and the desire to make up for past humiliations. But there was also the position set out by Foreign Minister Sergei Lavrov, who declared that the domination of Anglo-Saxon values was over and that an era of competition in the "civilization dimension" has begun. Not so long ago, members of the Russian elite had been talking about how they accepted liberal principles but applied them in accordance with Russia's specific conditions. During Putin's second presidency, they started to lay claim to their own value system, though it remained unclear exactly what values they had in mind.

One could conclude at that time that the Kremlin wanted to establish Russia's status in a space somewhere between the West and the rest of the world, one that would give it the chance to play by its own rules, which were not always clear and certain. One fact, though, was apparent: the Kremlin's ambition was to have an independent system with satellites in Russia's orbit. At the same time, Moscow wanted to be part of Western decisionmaking mechanisms without making any commitments to the West.

Putin's team wanted to ensure themselves a place in the global governance with the West. This implied a proposal to the West to return to a balance of power, but with a Western guarantee that it would hold itself back with regard to Russia while recognizing the country's right to have its sphere of influence. The Western leaders were hardly prepared for this unusual paradigm. This macho foreign policy model became a powerful factor in Russian domestic affairs that had to legitimize the Kremlin's political regime. In the absence of ideology and an attractive domestic agenda, the foreign policy doctrine had to ensure the interests

of the Russian rentier class, the raw-materials model of capitalism, and an authoritarian government. One could hardly fail to notice an interesting phenomenon: While seeking to maintain the status quo inside Russia and keep the ruling team in power, the Kremlin was attempting to revise the status quo that emerged in the world after the Soviet collapse. Being a **dogmatist** and a revisionist at the same time has become the Kremlin's credo. Taking a look at the Russian elite's rhetoric in 2006–07, one could see statements such as "Russia cannot take any one side in the conflict of civilizations. Russia is ready to act as a bridge." The Kremlin's **choice of words—mediator, bridge, superpower, network diplomacy, and geopolitical triangle**—illustrated the reigning mood among the Russian ruling team at the time.

The Kremlin's offensive worked. The Russian elite succeeded in forming a fairly broad range of instruments of influence in the West that continues to work today. It includes co-opting Western business and intellectual representatives into their own network, playing on the contradictions between Western countries, imitating the West and making use of Western double standards to justify Russian double standards. This has become a clear model of a ruling class that wants to have all the benefits the Western world can offer but at the same time rejects its standards. Moscow could defend Serbia's territorial integrity but at the same time undermine Georgia's and threaten to split Ukraine. Russia could take part in the Russia-NATO Council but at the same time consider NATO its enemy. Meanwhile, Western leaders have failed to offer an antidote to the Kremlin's game.



## ATTEMPTS TO MODERNIZE THE SYSTEM AND ITS FOREIGN POLICY SUPPORT

The global economic crisis in 2008 forced Putin's team to tone down its ambitions and ushered in a new phase in the Kremlin's foreign and security policy development. The authorities realized that the domestic status quo was fragile and the economy in need of modernization. This required a change of tactics, and they therefore laid aside for the time being attempts to blackmail and intimidate the West. They concluded that what Russia needed to do was to make use of financial and technological opportunities offered by the West to overcome its backwardness, following a formula that was used successfully on two previous occasions in Russian history – by Peter the Great and Joseph Stalin. The Kremlin decided to attempt for the third time to use the West in bringing about post-industrial modernization while not changing the system itself, i.e., without expanding freedom and competition.

The “reset” in Russian-U.S. and Russian-EU relations provided the authorities with the ideal tool for carrying out their plans. Medvedev's arrival in the Kremlin gave this new model of relations a political basis. The cooling in ties during Putin's presidency had come to an end and the mood in the West was generally hopeful and looking to Medvedev's supposedly pro-Western aspirations and liberal views. Henry Kissinger wrote enthusiastically that “we are witnessing one of the most promising periods in Russian history.”<sup>6</sup>

It soon became clear, however, that hopes that Medvedev would become the architect of a new breakthrough with the West were greatly exaggerated.

Those who hoped that new president could set in motion a pro-Western shift in the Kremlin were failing to see the obvious.

During the war against Georgia in 2008, Medvedev sounded more hard-line in his anti-American and anti-Georgian declarations than Putin, the senior Russian leader. Medvedev put forward five principles for Russia's foreign policy, among which was Russia's right to take action beyond its borders to protect the lives and dignity of Russian citizens wherever they may be, and to pay special attention to specific regions where Russia has "privileged interests." This clearly showed a desire to re-establish the historic buffer zone around Russia and proved that Medvedev has been working within the same foreign policy model as Putin. It was after Medvedev's arrival in the Kremlin that Russia began threatening to take measures in response to American missile defense plans in Europe, in particular by deploying Iskander missiles in the Kaliningrad Region. It was also under Medvedev that the latest gas war between Russia and Ukraine flared up at the start of 2009. Medvedev threatened Ukraine's President Viktor Yushchenko. For all the economic contradictions between the two sides and Kiev's ambiguous position, there was no doubt that Moscow's tough approach to the dispute pursued the political objective of destabilizing the situation in Ukraine and influencing the political struggle for power in that country and at the same time discrediting Ukraine in the West's eyes and thus blocking its road to Europe.

Medvedev's idea of a **new binding treaty on European security** and his explanation of his understanding of this security arrangement has been the continuation of an approach typical of Putin. It was not hard to see the Kremlin's intent—to prevent NATO expansion,

put the Alliance outside the European security system, and at the same time draw the European countries into long years of senseless negotiations with Moscow on the format of a new security agenda. True, quite a few Western and Russian observers prefer not to notice the Putin-Medvedev continuity in foreign and security policy. They prefer to stress the “reset” signs. Supporters of the reset have several arguments. They point to the normalization of Russian-U.S. relations, which is of course a positive step in itself.

Russia has normalized its relations with Poland, too. Moscow decided not to torpedo United Nations (UN) Security Council Resolution 1973 on Libya, giving the Western allies the chance to try to stop Muammar Gadhafi’s war against his own people. I agree that the efforts to overcome the tensions in Russia’s relations with the West and the Russian neighbors during Medvedev’s presidency are positive. But the point I want to get across is that this change in tone and even in tactics does not reflect any fundamental transformation in Russia’s foreign policy doctrine and its domestic roots. Without such a change, we can view the reset policy as simply a tactical move on the Kremlin’s part. The new tactics have their cause: the Russian authorities are trying to breathe new life into a disintegrating system that is inherently hostile to Western civilization and to the interests of Russian society. The reset simply turned out to be the most effective means of achieving these objectives.

Moreover, Medvedev’s lack of real powers and his never going outside the role of the “chair-warmer” for Putin during his presidency only proved that his foreign and security policy initiatives have been part of Putin’s survival project. If one looks attentively at Putin-Medvedev politics (I mean the real decisions

and actions, not the rhetoric), one would see that the Russian ruling group has been constantly moving in various directions: to the right, to the left, forward, and back. This fits the logic of a hybrid system made up of opposing tendencies. The reset policy of the tandem formula was an attempt to solve the problem of the Russian economic modernization. But there are other imperatives as well, first of all the need to preserve monopoly on power. There is no other way to do it without returning back to the usual trick—searching for an enemy. Thus, at any moment the Kremlin can push the button labeled “Cold Shower.”

## **CAN THE ‘RESET’ CHANGE THE RUSSIAN SYSTEM?**

Reflection on Russia’s foreign and security policy brings a number of questions to the fore. One of them asks whether foreign policy interests or internal political logic is the determinant factor? What led to the strain in relations between Russia and the West during NATO’s period of expansion and the Kosovo crisis, for example? Most Russian observers would blame the West’s policies, but I would say that the logic the Russian system follows is to blame. If alienation from Western civilization was not essential for keeping the Russian power system in place, NATO’s eastward expansion would not be perceived as a threat. On the contrary, Russia would even seek to join the organization, perhaps, and the idea of NATO drawing closer would not generate so many negative emotions. Eastern European countries would perhaps not have been so eager to rush into NATO’s embrace in the first place, as they did in fear of an undemocratic Russia. If the Russian authorities had changed their attitude to

the value of human life and human rights, they would not have tried to support Slobodan Milosevic, and the Kosovo crisis would not have taken such a dramatic turn. The reasons for the cooling in relations between Russia and the West during this period thus lie, above all, within Russia itself. It was the Russian system's internal logic that made foreign policy differences so antagonistic. The same reasons explain the cooling of the relationship in 2000-08 – this was the work of the Russian matrix.

Another question is, can the “reset” in Russia's relations with the United States and the EU lay the foundation for a more solid and lasting partnership? How should one assess the numerous initiatives that seek to establish a new partnership model or at least promote cooperation between Russia and the West? A few of these initiatives are worth recalling. Igor Ivanov, Wolfgang Ischinger, and Sam Nunn, for example, proposed a “new approach” to resolving Europe's security issues and a “thorough reorganization of the existing institutions, including the EU and NATO.” This proposal is in the spirit of Medvedev's initiative to establish new European security organizations that would weaken NATO. For their part, Igor Yurgens and Oksana Antonenko proposed a new NATO-Russia Strategic Concept and pursuit of confidence building measures between the two sides. There have also been the proposals that keep coming up to give Russia membership in NATO. It is hard to object to measures that would build greater confidence between the two sides, but the question is, how realistically can they be actually carried out if the principles and standards the two sides pursue are fundamentally alien to each other? Achieving real change in relations would require real change in the principles underpinning Rus-

sia's foreign policy, that is to say, real change to the regime's interests and nature.

Could external factors act as the impetus for such change? During Mikhail Gorbachev's time, the winding down of the Cold War certainly gave impetus to internal liberalization in the Union of Soviet Socialist Republics (USSR). But let us not forget that Gorbachev himself realized the need to end confrontation with the West because he understood that this was harming the Soviet Union and depriving it of sources of growth and development. In short, internal considerations were the primary factor in forming "the New Thinking" that emerged under Gorbachev. Today, too, Russia's foreign policy will change only if the principles that form the foundation of the Russian system also change. Partial solutions such as cooperation between Russia and the West on missile defense or addressing the Iranian and North Korean nuclear programs can serve as the basis for nothing more than a temporary warming in relations and pursuing tactical interests together. They cannot produce lasting and stable cooperation.

This does not mean that tactical measures that strengthen confidence between the two sides are not needed. But to think that such measures will fundamentally change relations is an illusion, and it is precisely such illusions that help the Russian monopolist power system to stay alive.

For now, things are clearly incompatible. Medvedev has been speaking of a successful reset (while Putin has been complaining that the reset did not bring what Russia had anticipated), while at the same time approving a new Military Doctrine (in February 2010) that names as the main threats to Russia's security "NATO's desire to extend the military organization of

its member countries closer to Russia's borders" and "attempts [by Western countries] to destabilize the situation in particular countries," deployment of military contingents "on the territory of countries neighboring Russia" and "the creation of a missile defense system." In other words, containing the West is the Military Doctrine's main goal. Indeed, it sets the objective not just of containing the West, but of preparing for future wars in space. Wars with whom? With the West, of course! "Air and space defense . . . is not a deterrent instrument but a policy of preparing for a major war against the main powers and alliances in the world," warned Alexei Arbatov, giving his assessment of the Military Doctrine's primary objectives.<sup>7</sup>

The reset thus does not change the essence of the Kremlin's foreign policy paradigm. So long as the Russian authorities still hope to use the West to support Russia's modernization efforts, one can expect the Kremlin to refrain from an aggressive line. In any case, the Russian elite's new means of survival through integration at the personal level into the Western community neutralizes the threat of a new cold war. The Russian elite is not devoid of common sense, after all, and it realizes that Russia's possibilities are limited; it is clearly not about to take any suicidal steps. But the Kremlin's pragmatism did not prevent the sharp cooling in Russia's relations with its Western partners in 2004–07. A number of internal factors force the Russian authorities to turn up the anti-Western rhetoric again. First among these are the parliamentary and presidential elections in 2011 and 2012. Russia's elections are always accompanied by a dose of the rhetoric of the "besieged fortress." There is a new phenomenon to consider too, namely, the public's growing discontent with the country's leaders, including Putin. In

this situation, and with social problems on the rise too, the Kremlin's anti-Western rhetoric will only increase. Faced with dwindling possibilities for pepping up the public, the Russian authorities always start looking for an enemy, and the obvious candidate among Russia's potential enemies is the United States, of course.

Surveys in January 2011 showed that 70 percent of respondents think that Russia has enemies. This shows that the mentality typical of the militarist paradigm of state life endures. Who are these enemies today? Chechen terrorists were named by 48 percent of respondents, while 40 percent named the United States, 32 percent said NATO, and 30 percent "some forces in the West." Despite the reset, 65 percent consider the United States an aggressor that seeks to take control of the entire world. The Soviet model of relations with the United States, with the Kremlin's help, thus continues to flourish today. The Kremlin's anti-Western rhetoric at home will inevitably spill over into its foreign and security policy, too.

## **FUTURE SCENARIOS: BETWEEN ATROPHY AND IMPLOSION**

Russia's options are becoming more limited every day because the system cannot compete with Western society in innovation or ability to address global challenges. Meanwhile, the Russian elite cannot permit even limited liberalization because that would threaten its monopoly on power and property. Political pluralism and competitiveness would mean the end of history in Russia, i.e., the end of the era of personalized power. The conservative part of the Russian ruling team may try to preserve the system by wielding an iron hand and even more blatant anti-Western pos-



turing. The iron hand scenario will be more likely in case the authorities start to lose control over the Russian developments. The more liberal part of the political class oriented toward dialogue with the West may not support the repressive scenario (though this is not certain). But could it consolidate its position so as to prevent the emergence of a stronger form of authoritarianism or even neototalitarianism? The answer is not clear. This is not a potential clash of ideologies or even of political orientations, but a clash of different ways of existence for the same rentier class. However, even if the iron hand scenario prevails, it is unlikely that the traditionalists will be able to hold on to power for long. Russia does not have the prerequisites for that, such as the willingness of the political class to isolate the country completely, reliable power structures and the public's willingness to turn Russia into North Korea. But if the ruling team chooses that path, Russia and possibly the outside world will pay a high price. Moreover, the jury is out as to how and in what shape Russia will exit from the iron hand scenario.

The more liberal segment of the Russian rentier class and a new batch of systemic reformers could try to preserve personalized power in a new form under a liberal banner. However, soft authoritarianism that undermines itself with empty liberal rhetoric will hardly be sustainable either. It does not lead to the liberal opening. Quite the contrary: this would discredit the liberal idea and pro-Western longings just like the Yeltsin presidency did. In any case, Putin's return to the Kremlin makes the option of softer authoritarianism rather doubtful. Sooner or later, Putin will have to turn to tougher measures to secure his hold on power.

Any open conflict within the Russian elite contains the seeds of hope, however weak, for the transforma-

tion of the traditional state. But a liberal breakthrough is possible only if a responsible and anti-systemic liberal opposition that will secure society's support emerges in Russia. Without that, a schism in the political class will lead to yet another mutation of the same old autocracy or will trigger the unraveling of the state. Despite growing resentment of the population and loss of credibility, Putin's ruling team has all the reasons to retain control over the country and secure the replication of its power beyond 2012. Such an outcome would mean that Russia would be stuck in growing stagnation for an indeterminate time. If oil prices remain high, society continues to be passive, business interests willingly serve the regime, the opposition stays fragmented, and the West supports the Kremlin, then degradation and atrophy is the most probable scenario for Russia at least in the next 5-7 years.

In a regime that is not prepared to impose mass repressive measures but is also incapable of dialogue with society, it does not matter who stands as the embodiment of political power. Nor does it matter what rhetoric or governing style the regime employs. In this scenario, economic growth in certain spheres is possible, which will create the appearance of development. Economic growth during the Putin's presidency not only did not lead to the formation of a diversified economic model, it did not halt the growth of the gap between Russia and the developed world either. The result will be continuing rot. This is the worst possible scenario. It can continue for a long time and bring total degradation of the population. The nation will lose steam and the desire to succeed. In some Russian regions, this degradation has already reached the point of no return.

Another scenario cannot be ruled out—that of a new violent implosion in Russia. With the highly centralized system recreated by Putin, dysfunction in one part can set off a chain reaction leading to a repeat of 1991. All such a chain reaction requires is an economic crisis more serious than the one that befell Russia in 2008. Even without an economic crisis, the failure of individual elements in the political system (for example, a disruption in the connection between the center and the regions) could topple the first domino and start total unraveling. Collapse of the system can also result from a series of technological catastrophes befalling Russia's Soviet-era industrial infrastructure. If you recall, the Chernobyl accident provided an incentive for Ukraine to leave the Soviet Union, making its disintegration inevitable. But both scenarios—the one of gradual rot and the one of fast implosion—will bring the collapse of the state in the end.

The Russian public is suffering government failures silently for the time being. The reason is not due to Russians' world-renowned patience, but because people do not see an alternative. But at some point people will start looking to look for it.

Surveys demonstrate that the mood of the Russian population is definitely changing. In the spring of 2011, about 84 percent of Russians said they saw no opportunity to influence political process. The majority of the population was not prepared to participate in politics, relied only on itself, and tried to avoid any contact with official structures. This proves that Russians have rid themselves of their traditional paternalism. The system and society are now drifting in opposite directions. So far, this fact has helped the system to survive, but it is worth remembering that the last time that happened, in 1991, the Soviet Union collapsed.

The fact that social anger and frustration are growing faster than the political process can channel it increases the danger of turmoil daily. At the moment, the collapse scenario seems rather unlikely. But since it is only possible to understand part of what is going on, it is reasonable to keep that scenario on the table. Using force to prolong a doomed system can only hasten its end and have devastating consequences for Russian statehood. Then again, any of the possible scenarios, including the transformational one, carries the threat of breakdown, due to the fact that Russia contains national and territorial communities that are civilizationally and culturally incompatible with each other. The North Caucasus is one example.

Fear of territorial loss and statehood implosion is a substantial obstacle to any political change. Even Westernizing liberals shudder to think that liberalization could create a repeat of the events of 1991. But it is worth noting that within Russian expert circles the idea that the current system is not likely to be reformed, and even if it is reformed as the result of the social and political protests, both options will lead to a new statehood is being already widely discussed. However, neither the Russian political class as a whole nor the public is ready for that possibility. The public, for the time being, will not support reform if it believes that reform will lead to territorial loss or a new state. But moods do change, and there may come changes of public perceptions and anticipations. Thus, it is important to deliberate now on what a new fragmentation of Russia would mean for the world. What would be the reaction of neighboring countries such as China and Turkey, or those in Central Asia and the Islamic world?

Decentralization of power in Russia is unlikely to lead to Siberia and the Far East breaking away from European Russia, but these regions will certainly seek greater autonomy and a greater influence on foreign policy. It is entirely possible these regions' relations with China, Japan, South and North Korea, and the United States will become far more important in their eyes than relations with European Russia. The future of Russia's nuclear facilities and industry is another issue as far as future developments go, and could become a problem every bit as serious as the Iranian nuclear issue. Lax security and safety measures at nuclear-waste storage sites in Russia already threaten the lives of local people and in a situation of growing chaos and lack of control could become an even greater danger.

The consequences of Russia's existence as a civilizational hybrid imitating the West are already starting to make themselves felt now. Russia is not a direct military threat to the West, and this lulls the West into a false security with regard to Russia. A civilizational hybrid of Russia's type can have an indirect effect on the prospects for liberal democracy in other countries. Mikhail Khodorkovsky rightly warned that Russia has become a big exporter not just of commodities, but also of corruption. The Russian elite, having integrated at the personal level into Western society, have already succeeded in turning some Western financial organizations into a money-laundering machine. There is now a unique situation in which the Western elite tries to educate the Russian political class about the principles of liberal democracy, while this same political class turns these principles into an imitation. This could become a real threat to Western civilization itself.

## BUILD-UP OF SUSPENSE

The paradox—one of many—is that those factors that helped to strengthen the Russian system have begun to undermine it. Take, for example, corruption, which until quite recently was one of the pillars of the Russian state. Today it has become a dreadful source of weakness. Corrupt police and public officials provide little support for the ruling team. The corrupt state apparatus disobeys orders from the center with impunity. The regime understands the threat posed by corruption, but taking decisive measures against it would mean rejecting the principles on which the system is built. Or consider another factor: the elections whose management the Kremlin has now mastered. Until recently, manipulating elections and falsifying their results helped to preserve continuity of power. But falsification only works when the public agrees to play “Let’s pretend!” The time may come when the public says, “Enough! We don’t want to play that game anymore!” That is exactly what the people of Serbia and Ukraine did.

To achieve the results it wanted in the parliamentary and presidential elections of 2011–12, the regime had to falsify results on much greater scale than before. That means that a regime based on blatantly rigged elections will lose all pretense to legitimacy. The only way it will be able to hold on to power is through applying more broadly the means of repression. But the state is not ready for repression on a massive scale. No matter how hard the political class tries to keep Russia drifting through the zone of uncertainty, sooner or later it will have to acknowledge that the present Pseudo-Project has exhausted itself. A state that satisfies narrow vested interests while pretending that it is

satisfying national ones, and which has no resources to shut society from the outside world is doomed, and its use of imitation to survive only increases the danger of its inevitable collapse.

It is not clear how the traditionalists in the Russian elite would behave in a crisis. But the probability is high that they will try to use foreign policy tools in a power struggle. It is hard to tell what form that might take: conflicts with neighbors, using foreign “hot spots” to provoke tension, new “gas wars,” or a new chill in the relationship with the West, and accusations that it is guilty of the Russian misfortunes. What is important is that a system that replicates itself by nursing its great-power ambitions, and which is based on anti-Western sentiments, will not be able to give either up easily.

In any case, the current “reset” should not make either Russia or the outside world complacent. The new warmth between the Russian state and the outside world can hardly be sustainable if the Russian elite continues to view the West as a foe that has to be deterred and the country’s neighbors as satellites who belong to its sphere of influence. The honeymoon can continue only if the Western powers accept the Russian way of dealing with the world.

Meanwhile, the time is approaching when the Russian regime will not be able to provide the standard of living and consumerist lifestyle that the most dynamic strata of Russian society have come to expect over the past 20 years. The social base of the system, which has kept things stable throughout the Putin-Medvedev period, may be undermined at any moment. Revolutions take place when people have lost all hope in the future and when improvement gives way to falling living standards for the population. The relative open-

ness of Russian society can contribute to undermining stability: people will compare the situation in Europe and Russia and see that the comparison is increasingly not in Russia's favor. One of the causes of discontent in Ukraine in 2004 was the comparison Ukrainians made between themselves and their increasingly prosperous Polish neighbors.

There are questions that will come up on the agenda very soon. One of them is what would be the personal fate of Russia's leaders if upheaval were to begin in the country? How would the world in general react if the Russian people took to the streets and the Kremlin decided to use force to suppress them? The West would do well to reflect on these issues ahead of time and not end up wavering in its response, as during the Arab revolutions. Should they put in place conditions that would enable Russia's leaders to depart peacefully, and guarantee them safety outside Russia? How to avoid Russia following the Gadhafi or the Assad scenarios, in which a leader driven into a corner resorts to civil war and bloodshed? These questions could come up sooner than is commonly thought.

Attempts to build stable and constructive relations between Russia and the West will either fail or produce imitation mechanisms in Russia so long as they do not address the root links between the country's internal development and its behavior on the world stage. Understanding these links will at least help to predict possible zigzags in relations and to understand Russian motivations. The West will eventually have to come to the realization that the Russian system is doomed and that the search for a new development model in Russia is inevitable. This will be a difficult, painful, and dramatic process. The West would be able to facilitate this process somewhat if it at the very



least refrains from any action that only serves to legitimize a doomed system.

## HOW TO GET OUT OF THE TRAP

I have described a bleak picture. Ironically, Russia presents a more optimistic landscape when viewed from outside. The domestic audience, including the official establishment, on the contrary starts to view Russia's future as a catastrophe. What does Russia need to do to break out of its vicious circle and take on a European identity? Is there still a chance to do this? Or has Russia reached the point of no return in its stagnation slide?

In order to survive, Russia must reform its state matrix. This presumes a solution to the triad problem: a transition to the principle of competition in economics and politics, a rejection of the principle of merging power and property, and strengthening the rule of law. In practice, these three issues mean a transition to political struggle, and the inevitable end of the ruling regime and its focus on continuity and control of property. Solving the triad problem is impossible without a review of the Putin-Medvedev foreign policy doctrine, which justifies simultaneous cooperation and containment of the West. To undergo such a radical transformation, the Russian elite must first realize that the current model of Russia's development is exhausted.

Today the Kremlin's modernization mantra proves that the ruling elite is not ready to start a real de-hermetization (liberalization). This leads to the unpleasant conclusion that a crisis—whether social, economic, or political—is needed to persuade the elite that the system is threatening its survival. Regretfully,

there are no examples in Russian history of preventive reform before a crisis hits. For the time being, the current ruling team has mistaken the lack of massive social unrest and anger as a license to continue moving in the same direction indefinitely. "We'll think of something tomorrow," the denizens of the Kremlin tell themselves, but the longer they take, the greater the danger of their losing control of the situation.

There is one more factor that may be just as important for Russia's transformation. No liberal transformation has ever taken place without the country in question coming into the orbit of the West. Since World War II, the key factor in transitions to democracy has been external pressure. This was what facilitated the democratic development of Germany and later of Southern European countries. Accession to the EU and NATO was the guarantee of irreversible transformation for the European post-Communist states. But openness to outside influence means readiness on the part of a country to limit its own sovereignty. Today Russia finds itself in a situation where Europe is not prepared to integrate it, and it is not prepared to give up even part of its sovereignty. On the contrary, retaining sovereignty has become the elite's most important tool for retaining power. Even Russian Westernizing liberals do not dare to mention that the country might have to give up a portion of its sovereignty to supranational European structures. For the man in the street, the very idea is blasphemous, a betrayal of the Homeland. Russian leaders see their primary mission as strengthening Russia's sovereignty and maintaining its independent path. How different they are from Chancellor Konrad Adenauer, who led Germany to democracy, when he dared to declare in 1953 that "Europe is more important than a nation!"

“Nothing to worry about,” say some liberal observers in Russia, “we can make Russia a modern state while taking an independent path and subordinating ourselves to no one.” Alas, there is no precedent for liberal transformation without the influence of the West and some type of integration with the West, and Russian development after 1991 gives no indication that that precedent is about to be broken. Meanwhile, the logic of history moves on. In its day, the Soviet Union based its existence on a global missionary project. That project was bound for nowhere, but at least it conferred an idea and passion to the system. Today’s Russian system has two ideas: national egotism and personal enrichment. But people are beginning to ask: “Is our might a delusion? And who is going to make us rich, and how?” The Russian authorities do not have the answers.

The mood is already changing. About a third of Russians could now be considered to form the modernist part of society—people who are psychologically prepared to live and work in a liberal system. The modernist part of Russian society and the passive strata that could join it would comprise about 68 percent of the population. Today about 53 percent of poll respondents believe that it is most important to “respect civil, political, religious, and other rights” and only 27 percent think that the most important action is “subordination of the minority to majority.” About 50 percent think that Russia has to join the EU, and only 27 percent think that it should not. At the moment, these people are atomized and are just hoping to get by on their own. It is not clear who or what could awaken them, or what will happen when they do awaken. But an enormous part of the Russian public is ready to accept new ways of doing things. This fact may become the key to Russia’s future.

However, the Russian elite do not show signs that they are able to comprehend that continuing on the present path is suicidal. In the past, Russia has always sought its truth at the bottom of the abyss. In order to keep from falling into the abyss yet again, society must pressure the elite to take stock of its situation. For now, the public seems to be content with playing the regime's games. Those members of the elite who understand their plight remain too enmeshed in the system to speak out. For the time being, no one is taking responsibility for Russia's future. People who are able and willing to do so appear, however, when there is a societal demand for them. The liberalization of the Gorbachev era arose spontaneously, bringing to the fore previously unknown figures who grasped the historical moment better than anyone else (although they were not ready to offer a constructive alternative).

For now, the attempt to modernize Russia without changing the rules of the game may be the last Russian illusion. It is, in any case, an illusion that few in Russia seem inclined to believe. Even the Kremlin spin doctors have not bothered trying to make it sound convincing. The country's leaders are obviously confused, and it is clear that they do not know where they are leading it. The elite is trying to guess at what is ahead, while safely squirreling away their families and finances in the West—just in case. The political regime cannot halt the growing dissatisfaction in its ranks.

What are the steps that could guarantee that this time Russia is ready to dismantle the Russian matrix? Let me give the "Must Do" agenda. Russia will need to:

- Hold free elections of the National Convention that will endorse the new constitution that will eliminate the omnipotence of the leader and introduce the checks and balances mechanism;
- Endorse new elections laws and guarantee free registration of the parties;
- Hold free elections to the legislatures and local self-government bodies and form a new government responsible to the Parliament;
- Secure freedom of media and meetings; and,
- Disband the current courts and law enforcement bodies (using the Georgian example) and form new ones.

These will be the first steps that could help Russia to get rid of the old system and start with new rules of the game. This transformation cannot be successful without massive pressure from the society, and the transformation itself cannot be done by the current ruling elite. All attempts to change the system just by new elections and bringing “new blood” into the state structures without changing the hyper-presidential constitution will be doomed to become a new Potemkin village exercise.

The true Russian transformation will be the result of domestic developments, activity, and actors. But this transformation has no future without incentives from the outside. The West and its readiness to create a constructive external environment for the Russian transformation could become a serious, if not crucial, factor of change. In order to play this role, the collective West will have to be able to avoid the confusion in which it found itself many times before, i.e., being caught flat-footed by the rush of history. In 1991, Western leaders and experts did not foresee the collapse of

the USSR — a comment on the quality of their Sovietology. In 1995–96, the West failed to appreciate the character of the system founded by Yeltsin. In 1999–2008, many Western politicians were mesmerized by the “Russian miracle,” failing to understand the substance of the Putin regime and the kind of economic stability he created. In time, the number of inveterate optimists was reduced. But there are still quite a few who hail the idea of Kremlin modernization from the top with enthusiasm. These optimists are matched by others who reject the possibility of Russia’s ever becoming a normal liberal country that maintains friendly relations with the West. Hopefully, today the West will be more prepared for a new stage of development.

One should not be lulled by the fact that things in Russia are quiet for now. This is a deceptive quiet. Even if a significant part of the public and a not-so-insignificant part of the elite believe they are living in a temporary shelter that needs to be rebuilt, that in itself is a condemnation of the system and of the Russian state. The Russian elite can keep engaging with Western counterparts, and Russian society may look as if it continues to sleep (or pretends to sleep), but deep down society is stirring. The new Russian “moment of truth” is inevitable. Regretfully, it will have to come after Russia and the West overcome the new illusion that Russia can modernize itself without changing its old genetic code.

## ENDNOTES - CHAPTER 1

1. Samuel P. Huntington, *The Third Wave: Democratization in the Twentieth Century*, Norman, OK: University of Oklahoma Press, 1991, p. 137.

2. One of the first observers to notice and formulate the “fundamental ambivalence” of Russia’s struggle to define its place in the world was Robert Legvold who coined the following definition: “with, although not necessarily as part, of the West, or within and perhaps against the West.”

3. James Sherr, *Russia and the West: A Reassessment*, The Shrivenham Papers, NO. 6, 2008, Shrivenham, UK: Defence Academy of the UK.

4. Dmitri Trenin, *Russia’s Coercive Diplomacy*, Moscow, Russia: Moscow Carnegie Center, Briefing, Vol. 10, Issue 1, 2008.

5. Bobo Lo, *China and the Global Financial Crisis*, London, UK: Center for European Reform, 2010.

6. Henry Kissinger, “Finding Common Ground with Russia,” *The Washington Post*, July 8, 2008.

7. Alexei Arbatov, “**Russia’s Foreign Policy and National Defense**,” *VPK.ru*, March 30, 2011.

## CHAPTER 2

### THE IMPOSSIBILITY OF RUSSIAN ECONOMIC REFORM: WAITING FOR GODOT

Steven Rosefielde

#### INTRODUCTION

Policymakers have long been double-minded about Russian economic possibilities. During the cold war, some imagined that the Soviet Union could improve planning sufficiently to overtake or even surpass America. Others felt that while planning was intrinsically inferior, the Kremlin could always set things right by jettisoning command and transitioning to democratic free enterprise.

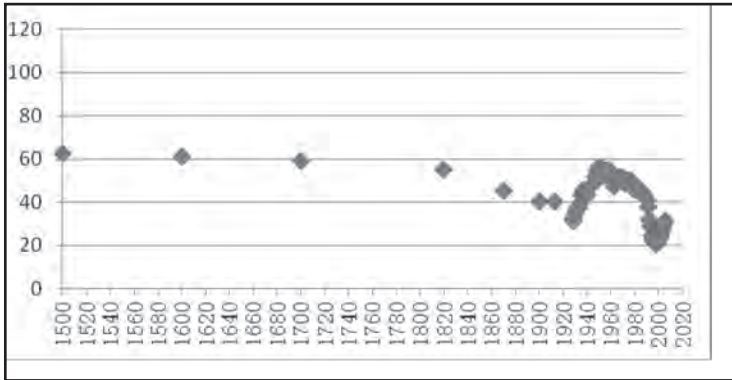
Post-communism has taught them little.<sup>1</sup> They fail to appreciate that the Soviet Union's flaws went deeper than command and that neither "liberalization" nor global market participation are panaceas.<sup>2</sup> Russia's core Muscovite economic system was inferior for 4 centuries before Joseph Stalin vainly tried to subdue rent-seeking New Economic Policy (NEP) commissars and red directors with "scientific" planning. Post-communist leaders have not fared any better in taming the beast. Policymakers across the globe consequently continue to await Godot (God),<sup>3</sup> expecting Moscow to adequately reform itself without recognizing that this is "impossible" in Kenneth Arrow's rigorous sense.<sup>4</sup>

Arrow demonstrated mathematically that it was impossible to reform balloting procedures sufficiently to make the democratic provision of public goods and services as efficient as private sector supply because



elections do not tell officials what the majority wants program by program.<sup>5</sup> They only reveal favorite candidates. Electoral rules of course can be reformed, but this is subsidiary. What matters is the impossibility of any reform to make majority (or principals') preferences comprehensively determinative. People held different views on the matter before 1953. After Arrow proved his theorem, the "possibility" issue was closed. The only question left on the table was democracy's adequacy.

Analogously, it can be proven that Russia's rent-granting economic system cannot be made comprehensively responsive to the Kremlin's, or the nation's preferences, and that the disconnect between demand and efficient supply (including innovation) is far larger than those of its western rivals. Consequently, if Kremlin supply preferences, including keeping pace with its neighbors, is the success criterion, then Russia's economy must disappoint, leaving no alternative but to accept significant inferiority, or switch by transitioning to the market. Moscow must choose to accept the limitations of reform within its system; or transition by replacing its current system with a better one. There is no middle way that allows Russian living standards to converge toward the west's high frontier, and simultaneously preserve its reliance on rent-granting and rent-seeking (See Figure 2-1).



Source: Angus Maddison, *The World Economy: Historical Statistics*, Geneva, Switzerland: Organisation for Economic Co-operation and Development OECD, 2003, available from [www.ggdc.net/maddison/Historical\\_Statistics/horizontal-file\\_03-2009.xls](http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_03-2009.xls). West Europe includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. Gross domestic product (GDP) for West Europe and Russia is calculated in 1990 international Geary-Khamis dollars.

**Figure 2-1. USSR-EU Territorial per capita GDP:  
Comparative Size 1500-2006  
(West European Benchmark).**

Russia can reconfigure its economic institutions,<sup>6</sup> but the Kremlin cannot make them work satisfactorily because principal-agent mechanisms capable of achieving competitively efficient rent-granting do not exist.<sup>7</sup> Russian economic reform in this critical sense is “impossible,”<sup>8</sup> despite eternal debates about “change” amid “continuity.”<sup>9</sup> In the Arrow case, one can imagine rival democracies performing similarly, but the Kremlin’s plight is harsher because Muscovite rent-granting is intrinsically inferior to competitive free enterprise.

One might suppose accordingly, that once the impossibility of adequate Muscovite reform is recognized, Kremlin leaders will immediately junk their rent-granting style of economic governance and transition to democratic free enterprise, but this is unlikely. Russia's tsars, commissars, and presidents prefer delegating micro-governance authority to vassals in return for service, tribute, taxes, and political support. They are attracted to command, and would welcome market discipline, but steadfastly refuse to relinquish their sovereign-vassal style of rule because, on balance, Kremlin leaders believe Muscovite rent-granting and rent-seeking provide them with the highest personal well-being.

This chapter elaborates the evolution of the Russia's Muscovite economic governance regime (sometimes called patrimonial bureaucracy),<sup>10</sup> and then describes an impossibility theorem proving that there is no intra-systemic reform (rent-granting, command, and incomplete markets)<sup>11</sup> that can make Russia's economy sustainably competitive with its rivals.<sup>12</sup> Moscow could switch systems (transition), but is most likely to continue waiting for Godot.

## **CORE MUSCOVITE MODEL**

Russia has been reforming its core Muscovite economy created by Ivan the Great in the late 15th century for at least 300 years. The pure model was a unitary state economic governance scheme where Tsars, (principals) unable to micro-plan and command production throughout their vast domains, chose to lease their freehold property on a revocable basis to vassals (agents) in return for crop shares, tax collection, and imperial service. Servitors were given a free

hand to manage these tenuous grants, subcontracting to overseers down a chain of command that ended with task masters flogging serf-slaves. There was no place in this primitive extraction system for multiple goals and competitive compensation. Tsars, servitors, and subcontractors merely sought to get what they could from the weak (satisficing),<sup>13</sup> leaving the serf-slaves with bare subsistence, and dividing the booty arbitrarily among themselves.

## **TSARIST STATE ECONOMIC MANAGEMENT REFORM**

The core model served its purpose and was deemed adequate until Peter the Great decided that state munitions and luxury good suppliers to the court had to meet quantitative and qualitative standards. Primitive rent-granting and service repayment suddenly was insufficient. State economic governance now required professional management for acquiring appropriate technologies, assuring quality control and large-scale production. The reform left unitary nonmarket state governance intact, and was a far cry from Stalin's concept of comprehensive economic command, but nonetheless should be seen as a baby step toward communist central planning.

## **ECONOMIC CO-GOVERNANCE**

The 18th century witnessed a counter trend. The scope of state economic management continued to increase at a snail's pace, however, it gradually was supplemented with emerging agrarian and industrial markets. Marketization accelerated during the 19th century, assisted by the abolition of serfdom and an

influx of western foreign direct investment (FDI).<sup>14</sup> These forces radically altered the core Muscovite model by transforming it from a unitary to an economic co-governance regime (rent-granting extraction, embryonic command, and market). Serf-slavery limited the market's salutary impact on productivity, but opened up the possibility of Soviet NEP-style reform, or as many 19th and 20th century observers preferred to believe, a transition to democratic free enterprise. Vladimir Lenin feared that prospect.<sup>15</sup> The economist Mikhail Tugan-Baranovsky documented the transformation,<sup>16</sup> and Anders Aslund prematurely declared capitalism's triumph in 1997.<sup>17</sup>

## SOVIET MUSCOVITE REFORM

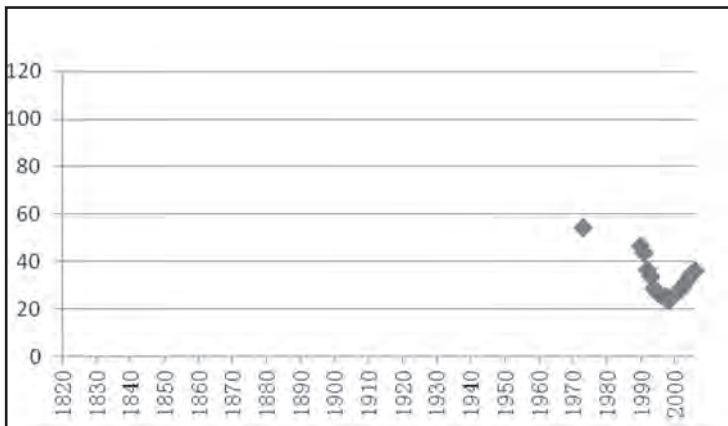
Economic co-governance was junked 1917-21 during War Communism in favor of requisitioning and rationing (unitary state economic governance).<sup>18</sup> Lenin declared that his (and Friedrich Engels's) "post office" scheme for ordering, producing, and delivering goods in lieu of markets would be systems-changing, replacing capitalism (Muscovy) with socialism (command control), but the initiative failed.<sup>19</sup> Muscovite economic co-governance (rent-granting, command, and markets) was restored during NEP 1921-29 (including state leasing).<sup>20</sup> This market communist experiment soon fell victim to Stalin's political intrigues. He scrapped NEP economic co-governance in September 1929, reverting to Ivan Grozny's and Peter the Great's rent-granting/command model, "improving" it with central planning, material incentives, terror, and Gulag forced labor.<sup>21</sup> Stalin's unitary state communist Muscovite reform regime was periodically tweaked. Nikita Khrushchev, fearing Stalin's ghost, dispensed

with terror. In the 1960s, he promoted the Liberman profit-seeking enterprise reform<sup>22</sup> and decentralized and downsized the Gulag.<sup>23</sup> Alexei Kosygin followed in his footsteps,<sup>24</sup> but rent-granting command (agent management, weakly guided by *Tekhpromfinplany* [technical-industrial-financial plans]) reigned throughout,<sup>25</sup> until Mikhail Gorbachev's partial reintroduction of cooperative leasing (*Arenda*) in 1987.<sup>26</sup>

Gorbachev's blending of leasing markets, and command (*Perestroika*) marks the beginning of the latest economic co-governance episode distinguished by the Kremlin's remarkable indulgence of servitors empowered to extract state resources and capture anti-competitive market opportunities.<sup>27</sup> Some competitive market elements have been beneficially introduced, including partial integration into the global economy, but remain subsidiary in the grand new scheme. Boris Yeltsin's version of Russia's latest Muscovite economic co-governance regime devised by Stanislav Shatalin and Grigory Yavlinsky, *Perekhod* (transition), has been heralded as a clean break with extraction and rent-granting. It is supposed to have launched a 500-day transition from communist Muscovite command to democratic free enterprise.<sup>28</sup> The claim, if sincere, however was wishful thinking.<sup>29</sup> Yeltsin and his chosen Russian secret police (FSB) successor, Vladimir Putin, modernized Muscovite economic co-governance, but the core system remains intact with little prospect of authentic transition.<sup>30</sup> The reintroduction of Russian style co-governing markets is not enough, nor has it ever been sufficient to create a competitive model that can keep pace with Moscow's rivals. This does not mean that Russia's economic co-governance system cannot be improved, but it does mean that we should temper expectations, if as seems likely the Kremlin chooses to cling to its tried and defective ways.

## A COMPETITIVE SECOND BEST

What are the prospects for Putin discovering a lasting Muscovite second best co-governance model that will allow Russia to keep pace with, or outstrip its rivals? Although hope springs eternal in the Kremlin, Alexander Gerschenkron's studies suggest that it cannot be done. His research shows that economic reforms in the 18th, 19th, and 20th centuries allowed Russia to develop in fits and starts (reforms sometimes had fleeting beneficial effect), but no Muscovite governance regime ever enabled it to sustainably challenge the west.<sup>31</sup> Figures 2-1 and 2-2 illustrate the dilemma. They show that Russian per capita GDP steadily declined for more than a half millennium relative to the European Union (EU) norm. It fared worse in comparison with America. There have been a few fleeting moments of catch up, but no sustained reversal of fortune.<sup>32</sup>



Source: Maddison, *The World Economy: Historical Statistics*.

**Figure 2-2. Russian-EU Per Capita GDP:  
Comparative Size 1820-2006  
(West European Benchmark).**

## IMPOSSIBILITY THEOREM

The fatal flaw in Muscovite economic governance is the conviction that anticompetitive privilege granting will not degrade economic efficiency enough to matter; that satisficing (making do) will not keep Russia permanently behind the competition.<sup>33</sup>

Kremlin leaders want to have their cake and eat it too. They prefer to lease or sell their rights as “principal” to economically govern, yet still retain firm control over agent behavior and outcomes. They know with certainty that agents will be tempted to subordinate duty to personal interest because of asymmetric information and principals’ need to curry agents’ favor, but expect everything to work out well enough.

This principal-agent problem can be formally expressed as a trilemma,<sup>34</sup> where 1) the crown can delegate broad “extractive” authority (Muscovite rent-granting), supplemented with weak edicts (*ukazy*); 2) it can construct a strong plan-command control regime accepting the deficiencies of central planning and morally hazardous compliance schemes; and, 3) it can install competitive, market-disciplined co-governance.<sup>35</sup>

Tsars, commissars, and presidents must choose one, and only one primary option as a basic style of rule, even though rent-granting can be partly combined with command and markets. They cannot empower servitors, and simultaneously subordinate them to command, or allow them to competitively vie with markets without negating “oligarch-agent” autonomy. They cannot comprehensively plan, and simultaneously rent-grant, or permit markets to countermand plan directives without undermining plan



compliance.<sup>36</sup> They cannot make markets supreme and simultaneously rent-grant and command without compromising the benefits of competition.

The market option is synonymous with transition and has been steadfastly resisted for more than 500 years. Post-Soviet leaders have rejected command planning. Thus, Putin and his successors find themselves stuck with rent-granting, haphazardly mitigated with aspects of plans and markets, just as Tsar Nicholas II did before them. The possibility of economic reform enabling Russia to parry its rivals therefore depends on the existence of a potent principal-agent mechanism; one capable of optimally integrating rent-seeking, command, and markets.<sup>37</sup> It must reconcile the intrinsic contradictions among delegation, command, and competitive market discipline.

There is a vast technical economic literature on the difficulty of holding wily servitors accountable under a wide range of circumstances given asymmetric information, but none showing how agents can be compelled to comply with unstated objectives that principals do not bother formulating, when rulers are inclined to forgive most peccadilloes in an institutional setting that rejects effective market discipline. These lacunae are telltale signs. Russia's tsars, commissars, and presidents insist on satisficing,<sup>38</sup> and reject subordinating their authority to competitive markets. They would gladly command, but with the Soviet experience in mind shun it, even in the military industrial complex (VPK). The principal consequently cannot devise an incentive scheme to discipline agents, and could not apply one if it existed because rulers insist on satisficing. Muscovite rent-granting as a free standing system cannot pass the principal-agent coherency test when rulers want vassals to fulfill unstated

desires. Nor can the crown allow markets to do the job without infringing on Kremlin sovereignty. The impossibility of formulating and designing coherent principal-agent incentive mechanisms to reconcile the contradictions of mixed Muscovite economic control, proves the impossibility of systems empowering Russian economic reform under prevailing circumstances. There is nothing that the Kremlin can do that will allow it to overtake the west, keep pace, or surpass it thereafter under a Muscovite unitary or co-governance system.

Russia's GDP can grow, and the living standard gap can be narrowed through modernization and technology transfer,<sup>39</sup> but Russia will remain forever at the back of the pack as long as Muscovite rent-granting is in command. It may flourish from time to time through divine coincidence,<sup>40</sup> but even then it will not take long for servitors to undo any good that that might be done. This judgment is not abstruse. It is eminently practical. There are classes of principal-agent problems that can be solved, or at least adequately managed, but Muscovite regimes do not qualify because rulers do not have operational objective functions, collude with their servitors, and condone their mischief.

## **GUNS AND BUTTER**

Nonetheless, Gerschenkron has demonstrated that while Muscovite rulers cannot reform their way to competitive success, they can try to compensate by emphasizing the production of guns or butter. Putin appreciates the possibilities, and for the moment has implicitly chosen butter over guns, tolerating low volumes of weapons production despite the govern-

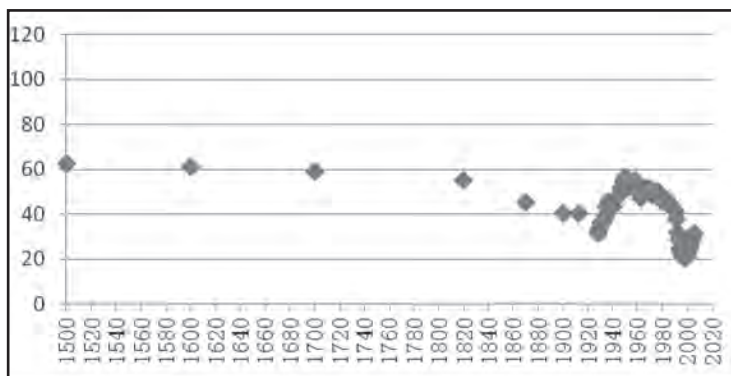
ment's ambitious weapons production plans.<sup>41</sup> These policies may have limited benefits, and can be construed as economic reforms in a narrow sense, but cannot in and of themselves change the dismal fundamentals.

## PROSPECTS

The likelihood of Russia's economy becoming sustainably competitive with its main rivals by reforming its Muscovite co-governance mechanism is nil, despite misleading statements implying that Russian per capital GDP dectupled 1999-2011.<sup>42</sup> Russia's living standard increased 64 percent 1999-2006 according to Angus Maddison's OECD calculations, and is unchanged point to point 2006 through 2011. Its per capita GDP today is the same as it was in 1989,<sup>43</sup> after 2 decades of hyper-depression ( a depression roughly twice as severe as America's 1929-33) and recovery in 1999-2008 followed by a steep drop of 8 percent in 2009 and a return to growth of about 4 percent in 2010.

Russia's economy could improve in the years ahead, given its extreme economic backwardness, through technology transfer, gradual gains in market efficiency and the windfall benefits of high natural resource prices,<sup>44</sup> but not enough to significantly close the gap with its rivals. Sovereign debt issues in the European Union and America could help Russia keep up for a while,<sup>45</sup> but would also dampen western import demand from the Federation, and place downward pressure on natural resource prices, essential to Russia's financial well-being. Similarly, Beijing's fast growing market communist system might seem to provide a glimmer of hope because the Russian and Chinese systems share many common traits,

and their per capita incomes are on a par (Figure 2-3). But Russia is unlikely to capitalize on its advantages of relative backwardness because the Kremlin views foreign investors and outsourcers more as adversaries seeking resource rents than as business partners.<sup>46</sup> Of course, Putin still has an ace in the hole. If one believes in miracles, then Russia can abandon Muscovy and transition.<sup>47</sup>



Source: Maddison, *The World Economy: Historical Statistics*.

**Figure 2-3. East-West Divergence and Convergence  
1500-2006 China versus the EU per capita GDP  
(Western Europe = 100).**

Some political scientists will consider this assessment pessimistic. They have faith in the march of human progress and are adept at finding auspicious signs. This was the stock-in-trade of the International Money Fund (IMF) and World Bank during the transition euphoria of the 1990s and 2000s, before 2009.<sup>48</sup> These institutions and others insisted that as modernization and globalization raised living standards in less developed countries, emerging nations would in-

evitably forsake authoritarianism for democratic free enterprise.<sup>49</sup> Although, the prediction clearly has gone awry in the Federation, the hope persists that Russia's transition merely has been delayed because its per capita GDP now exceeds \$10,000, computed in current dollars with an overvalued ruble exchange rate.<sup>50</sup> This hypothesis cannot be disproven, even though the Kremlin has had ample opportunity during the past half millennium to quit Muscovy, but the internal signs are not propitious. Putin is not wavering, and Obama's "reset" hasn't triggered a popular domestic ground swell for democratic free enterprise.

## ENDNOTES - CHAPTER 2

1. Andrei Shliefer and Daniel Treisman, "Russia: A Normal Country," *Foreign Affairs*, March/April 2004, Cf; Steven Rosefielde, "Russia: An Abnormal Country," *European Journal of Comparative Economics*, Vol. 2, No. 1, 2005, pp. 3-16. Academic Russian economists are pessimistic about prospects for sustainable reform or transition. See *Institutsional'naya ekonomika: razvitie, prepodavanie, prilozheniya*, Mezhdunarodnaya Konferentsiya, Gosudarstvennyi universitet upravleniya, Moscow, Russia, 2009; D. Trenin, "A new and modern foreign policy," *Moscow Times*, May 14, 2010.

2. Steven Rosefielde, Masaaki Kuboniwa, and Satoshi Mizobata (eds.), *Two Asias: The Emerging Postcrisis Divide*, Singapore: World Scientific, 2012.

3. Samuel Beckett, *Waiting for Godot*, London, UK: Faber and Faber, 1956. The play is a classic absurdist tragicomedy.

4. Kenneth Arrow, *Social Choice and Individual Values*, 2nd Ed., New York: Wiley, 1963.

5. Arrow proved that balloting does not assure that majority preferences determine most government programs in democratic societies. Elected officials may faithfully implement their platforms, but only some of the planks in the platform will be

majority approved. A minority of voters may prefer the rest of the planks. Minority ("dictators") preferences therefore determine numerous issues, contrary to the presumption that majority preference govern outcomes throughout. The same problem doesn't best perfect competition. It can be proven in principle that markets are capable of responding efficiently to consumer preferences, without entailing "paradoxes." This claim does not apply to the Russian Muscovite economic control system which is strewn with principal-agent paradoxes that degrade its performance relative to the west.

6. The Kremlin decriminalized private ownership, business, and entrepreneurship in the late 1980s. It implemented the initiative by establishing new legal business entities, decontrolling prices, opening the economy, permitting capital inflows and outflows, cutting taxes, developing macroeconomic management capabilities, and promoting the rule of (contract) law, all purportedly to create a state guided, competitive market system aimed at advancing consumer utility and social welfare. When these efforts went awry, it made mid-course corrections and counted on spontaneous market forces (including the maturation of civil society) to do the rest; all to no avail. Sergey Teplyakov, "Institutsional'nyi vektor postsotsialisticheskoi transformatsii v Rossii," *Mezhudnarodnaya konferentsiya, Institutsional'naya ekonomia: razvitie, prepodanvanie, prilzheniya, Gosudarstvennyi universitet upravleniya*, Moscow, Russia, November 16-17, 2009, pp. 166-174. "Dmitry Medvedev's Building Project," *The Economist*, November 26, 2009.

At times Mr. Medvedev's speeches sound uncannily like post-modern renditions of Mr. Gorbachev's. His diagnosis is relentless: a primitive, commodity-based economy that cannot create prosperity; the lack of reforms; and all-pervasive corruption.

Unable and unwilling to touch the foundations of the political system that created him, Mr. Medvedev has been reduced to uninspiring talk of simplifying Russia's 11 time-zones and of creating business incubators at universities.

Mr. (Sergei) Guriev (head of the New School of Economics) suggests that the reason Russia has failed to modernize is that its ruling class can pocket rents from things as they are. Serious modernization threatens them because it would require stronger institutions that would make this harder.

Under Mr. Putin the political system is held together by the collective interest of those who divide up rents, combined with occasional repression. If the oil price stays flat or falls, that formula may keep working only if the repression is stepped up.

7. The same principle holds for mixed arrangement where rent-granting predominates, but is supplemented by command and markets.

8. This claim assumes that rivals are competitively efficient, and that special factors like resource endowments are not decisive.

9. Alexander Gerschenkron, *Continuity in History and Other Essays*, Cambridge MA: Belknap Press, 1968.

10. Max Weber, *Economy and Society*, Berkeley, CA: University of California Press, 1978.

11. The proof can be extended to that form of social order that Russians call "*Sobornost*," i.e., spiritual communalism.

12. The proof is "weak," because although it can be shown that mechanisms do not exist for reconciling the conflicting goals of rent-granting, command, and competitive markets, an optimum might be achieved by "divine coincidence." If readers believe in miracles, the proof provided later is "weak."

13. Satisficing is an economic term for incomplete utility searching and profit maximizing. The antonyms are maximizing and optimizing. It is akin to optimal satiation, but different, because satisficers do not bother to inquire whether it is worth their while to seek more. Judgments about what constitutes enough are emotionally, not rationally based by definition.

14. John McKay, *Pioneers for Profit: Foreign Entrepreneurship and Russian Industrialization, 1885-1913*, Chicago, IL: University of Chicago Press, 1970.

15. Vladimir Lenin, *The Development of Capitalism in Russia: The Process of the Formation of a Home Market for Large-scale Industry*,

Moscow, Russia: Progress Publishers, 1899 (published under the pseudonym Vladimir Il'in).

16. Mikhail Tugan Baranovsky, *The Russian Factory in the 19th Century*, Homewood, IL: Richard D. Irwin, 1970.

17. Anders Aslund, *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*, Washington, DC: Peterson Institute, 2007; Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge University Press, MA: 2001; *How Russia Became a Market Economy*, Washington, DC: Brookings, 1995.

18. Alec Nove, *An Economic History of the USSR, 1917-1991*, 3rd ed., London, UK: Penguin, 1992; Steven Rosefielde, *The Russian Economy: From Lenin to Putin*, Oxford, UK: Blackwell, 2007.

19. Vladimir Lenin, *State and Revolution*, New York: International Publishers, 1917.

20. Russia's wealth in principle was the tsar's patrimony. He/she effectively leased assets to servitors just as Lenin did during the New Economic Policy (NEP). Both tsarist and Bolshevik leasing were revocable.

21. Alexander Gerschenkron, "Russia: Patterns and Problems of Economic Development, 1861-1958," in Gerschenkron, ed., *Economic Backwardness in Historical Perspective*, Cambridge, MA: Harvard University Press, 1962, pp. 119-151. Steven Rosefielde, *Red Holocaust*, London, UK: Routledge, 2010.

22. Evsei Liberman, *Economic Methods and the Effectiveness of Production*, New White Plains, NY: International Arts and Science Press, 1972.

23. Rosefielde, *Red Holocaust*.

24. Gertrude Schroeder, "The Soviet Economy on a Treadmill of Reforms," In *Soviet Economy in a Time of Change*, Washington, DC: Joint Economic Committee of Congress, 1979, pp. 312-366.



25. *Tekhpromfinplany* were enterprise, technical, industrial, and financial microplans.

26. Steven Rosefielde, and Stefan Hedlund, *Russia After 1984: Wrestling with Westernization*, Cambridge UP, London, 2007.

27. Rosefielde and Hedlund, *Russia After 1984*.

28. Shatalin, Stanislav, *et al.*, *Transition to the Market: 500 Days, Part I* (English Ed.), New York: St. Martin's Press, 1991. Cf. Steven Rosefielde, "Russia's Aborted Transition: 7000 Days and Counting," *Institutional'naya ekonomika razvriet*, 2010.

29. Stanislav Shatalin asserted that it did not matter whether transition took 500 days or 500 years, as long as it rid Russia of communism. Public lecture, Duke University, November 1991.

30. Clifford Gaddy and Barry Ickes, "Russia After the Global Financial Crisis," *Journal of Eurasian Geography and Economics*, May-June 2010, pp. 281-311. Gaddy and Ickes declare that "Russia is addicted to resource rents," meaning subsidization of Soviet-era industry. They claim that like "all" resource-rich economies, "rent management" is the key to understanding the laws of Russian economic motion, and liken Putin's governance to a "protection racket." Cf. Clifford Gaddy and Barry Ickes, *Russia's Addiction: The Political Economy of Resource Dependence*, Washington, DC: Brookings, 2010. Leon Aron claims that around one-fourth of the 900,000 inmates in Russian jails today are entrepreneurs, accountants, legal advisers, and midlevel managers. The chairwoman of Business Solidarity, an organization that defends the rights of entrepreneurs, decried the "criminal-legal repression," calling it "a state within a state." See L. Aron, "Dimitri Medvedev's Modernization Thaw: Objectives, Actions, and Policy Tests," *AEI Russian Outlook*, September 9, 2010.

31. Gerschenkron, "Russia: Patterns and Problems of Economic Development, 1861-1958."

32. Andrei Illarionov recently showed that Russian industrial output fell for 7 consecutive months and therefore, according to National Bureau of Economic Research (NBER) criteria, Russia's economy has succumbed to its second depression/recession in

the past 5 years. This behavior, observable in the United Kingdom and no doubt soon in the United States, too is the normal aftermath of major financial crises. See Carmen Reinhart and Daniel Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*, Princeton, NJ: Princeton University Press, 2009. Андрей Илларионов, экономист, available from [www.echo.msk.ru/blog/aillar/812549-echo/](http://www.echo.msk.ru/blog/aillar/812549-echo/) НОВАЯ РОССИЙСКАЯ РЕЦЕССИЯ (New Russian Recession), сентября 17 2011, 09:14. See Figure 2-4.



Note: Recessions are indicated by the vertical bars.

Source: Data from NIU VSHE.

**Figure 2-4. Index of Industrial Output, January 2000 = 100.**

33. Anticompetitiveness degrades both micro and macroeconomic efficiency. Nassim Nicholas Taleb has compiled a list of the macro risks for western economies, which are doubly applicable to Muscovy: (1) “too big to fail” notions; (2) the socialization of losses and privatization of gains; (3) “nothing succeeds like failure” attitudes; (4) incentivizing regulatory incompetents to manage risk; (5) excessive complexity; (6) empowering government to play with matches; (7) allowing government to play the confidence-building con game; (8) giving government excess-spending addicts further doses to assuage their pain; (9) canonizing charlatan experts; (10) patchwork reform used as a substitute for fundamental systems redesign. Nassim Taleb, *Black Swan: The Impact of the Highly Improbable*. New York: Random House, 2007.

34. A trilemma is a difficult choice from three options, each of which is (or appears) unacceptable or unfavorable. There are two equivalent ways to express a trilemma: it can be expressed as a choice among three unfavorable options, one of which must be chosen, or as a choice among three favorable options, only two of which are possible at the same time. In the Muscovite case, rent-granting is desired, but deemed not good enough. Command planning is appealing, but the Soviet experience was disappointing. Kremlin rulers reject markets as unacceptable infringements on their authority.

35. O. Williamson, *Markets and Hierarchies*, New York: The Free Press, 1975; M. L. Weitzman, "The New Soviet Incentive Model," *The Bell Journal of Economics*, Vol. 7, 1976, pp. 251-257; S. Ross, "The Economic Theory of Agency: The Principal's Problem," *American Economic Review*, Vol. 63, 1973, pp. 134-139; E. Maskin and J. Tirole, "The Principal-Agent Relationship with an Informed Principal, I: Private Values," *Econometrica*, Vol. 58, 1990, pp. 379-410; E. Maskin and J. Tirole, "The Principal-Agent Relationship with an Informed Principal, II: Common Values," *Econometrica*, Vol. 60, 1992, pp. 1-42; T. Lewis and D. Sappington, "Ignorance in Agency Problems," *Journal of Economic Theory*, Vol. 61, 1993, pp. 169-183; J. J. Laffont and J. Tirole, 1993, *A Theory of Incentives in Procurement and Regulation*, Cambridge, MA: MIT Press, 1993; J. Berliner, *Innovation in Soviet Industry*, Cambridge, MA: MIT Press, 1975; Douglass North, *Understanding the Process of Economic Change*, Princeton, NJ: Princeton University Press, 2005; Elizabeth Ostrom, *Understanding Institutional Diversity*, Princeton NJ: Princeton University Press, 2005; Oliver Williamson, *The Economic Institutions of Capitalism: Firms, Markets and Relational Contracting*, New York: Free Press, 1985; and Oliver Williamson, *Mechanisms of Governance*, Oxford, UK: Oxford University Press, 1996; Oliver Williamson, "The New Institutional Economics: Taking Stock, Looking Ahead," *Journal of Economic Literature*, Vol. 38, No. 3, September 2000, pp. 595-613. Also see Ronald Coase, "The New Institutional Economics," *American Economic Review*, Vol. 88, No. 2, May 1998, pp. 72-74; Donald McCloskey, *The Bourgeois Era*, Chicago, IL: University of Chicago Press, 2010.

36. This is why Russian Defense Minister Anatoly Serdyukov is empowered to carry out cost efficiency based military reforms,

but is denied independent authority to make deeper military policy. The same principle holds throughout the Kremlin bureaucracy, but not among rent-grantees.

37. Some Slavophil romantics prefer *Sobornost* spiritual communalism.

38. Herbert Simon, *Models of Man: Social and Rational*, New York: Wiley, 1957.

39. Steven Rosefielde, and Stefan Hedlund, *Russia After 1984: Wrestling with Westernization*, London, UK: Cambridge University Press, 2007.

40. Rent-grantors control the nation's natural resource rents, the outsourcing of state functions to themselves, government interest rate and foreign currency price manipulation, the sale of lucrative positions, the usufruct (a right of enjoyment enabling a holder to derive profit or benefit from property that either is titled to another person or which is held in concurrent estate, as long as the property is not damaged or destroyed) from government programs, and incomes created by overpayments to government and private contractors, the diversion of foreign aid and foreign direct investment, bribes, embezzlement, and asset misappropriation. They both create and control rents. Collusive practices inflate natural resource prices, and overcompensate vendors without augmenting value-added, with the unearned incomes distributed on the basis of power, rather than competitive contribution. Enterprise and institutional revenues, assets, credits, and guarantees are similarly mal-distributed.

41. Stephen Blank, "Russia's 2012 Elections: Do They Matter?" *World Defence Systems*, 2011; Steven Rosefielde, "Moment of Truth," *The Impact of Economic Crisis on International Strategic Configuration*, Stockholm, Sweden: Institute for Security and Policy Development, Fall 2009; Steven Rosefielde, "Economics of the Military-Industrial Complex," in Michael Alexeev and Shlomo Weber, *The Oxford Handbook of Russian Economy*, Oxford, UK: Oxford University Press, 2012.

42. Andrew Kuchins, "Putin's Return and Washington's Reset with Russia," Washington, DC: Center for Strategic and International Studies, September 30, 2011. 'Russians are far wealthier today, with a per capita GDP of close to \$20,000 (it was just about \$2,000 in 1999),' available from *rep@csis*. Kuchins does not discuss his statistics, but the distortion which holds in both directions (1999 and 2011) probably reflects the use of nominal rather than constant ruble-dollar ratios (foreign exchange rates).

43. Russian GDP per capita computed in constant 1990 U.S. dollars is \$7,779 in 1990, \$4,777 in 1999, and \$7,831 in 2006. See [www.ggd.net/maddison/Historical\\_Statistics/horizontal-file\\_03-2009.xls](http://www.ggd.net/maddison/Historical_Statistics/horizontal-file_03-2009.xls). Russia's living standard rose 6 percent in 2007, but the gain was more than erased by the global financial crisis of 2008-11.

44. Rising natural resource prices, together with derivative ruble appreciation, increase wealth and with it domestic demand, which in turn creates overfull employment and the illusion of sustainable above-trend economic growth. Also, note that while the advantages of economic backwardness enabled China to quadruple its per capita income during the last 2 decades, Russia failed to grow at all point to point 1989-2009. See Masaaki Kuboniwa, "Lessons from BRICs," in Steven Rosefielde, Masaaki Kuboniwa, and Satoshi Mizobata, eds., *Two Asias: The Emerging Postcrisis Divide*, Singapore: World Scientific, 2012.

45. Steven Rosefielde and Assaf Razin, "PIIGS," in *ibid*; Bruno Dallago and Chiara Guglielmetti, "Institution setting, structural vulnerability, and policies: the EU in the framework of global imbalances," in *ibid*.

46. Steven Rosefielde, "Communist Asia," in Paul Hare and Gerald Turley, eds., *The Economics and Political Economy of Transition: Handbook*, Abingdon, UK: Routledge Press, 2012; Masaaki Kuboniwa, "Lessons From Brics," in Rosefielde *et al.*, eds., *Two Asias*.

47. Douglass North, however, has cautioned that formally adopting the institutions of democratic free enterprise may not be enough. "Since it is the norms that provide 'legitimacy' to a set of rules, revolutionary change is never as revolutionary as its supporters desire and performance will be different than anticipated.

And economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement." Douglass North, "Economic Performance through Time," Nobel Prize Lecture, December 9, 1993; K. Darden, *Economic Liberalism and Its Rivals: The Formation of International Institutions Among the Post-Soviet States*, Cambridge, MA: Cambridge University Press, 2009.

48. Andrei Shliefer and Daniel Treisman, "Russia: A Normal Country," *Foreign Affairs*, March/April 2004. Cf. Steven Rosefielde, "Russia: An Abnormal Country," *European Journal of Comparative Economics*, Vol. 2, No. 1, 2005, pp. 3-16.

49. Francis Fukuyama, *The End of History and the Last Man*, New York: Free Press, 1992.

50. Andrew Kuchins, "Putin's Return and Washington's Reset with Russia," Washington, DC: Center for Strategic and International Studies, September 30, 2011. "There is a natural tendency, as modernization theory argues, that as a nation's per capita GDP grows beyond a level of \$10,000, citizens demand greater government openness and accountability. Increasingly, at least at the elite level, Russians want more pluralistic, if not democratic, governance. This has been anything but Putin's priority in the past; he may have to reconsider his stance now."



## CHAPTER 3

### REFORM OF THE RUSSIAN MILITARY AND SECURITY APPARATUS: AN INVESTIGATOR'S PERSPECTIVE

**Mark Galeotti**

In February 2008, President Minister Vladimir Putin said that Russia's armed forces had become more mobile and combat-ready than ever before.<sup>1</sup> Then in August, Russia unleashed those forces on its far smaller neighbor, Georgia. Moscow had been preparing for this conflict for a couple of years and was able to deploy 35,000-40,000 Russian troops and allied auxiliaries against up to 15,000 Georgian troops. The Russians also had clear air and naval superiority and also a preponderance of heavy firepower. They won, but that was never seriously in doubt. The real lesson was that they did not win more quickly, more cheaply, and more decisively. Their tactics were often drawn from the Soviet playbook, and often dictated by the lack of effective, modern command, control, communications, and intelligence (C3I) and night vision systems and the weaknesses of the aging global navigation satellite system (GLONASS). Although the Georgians were strategically inept, on a tactical level they often proved not just better equipped than the Russians, but also more flexible.<sup>2</sup>

The Kremlin could and did congratulate itself on a successful military-political adventure that at once humbled an upstart neighbor and reminded the other states of post-Soviet Eurasia that Russia's claims to it as an area in which Moscow has "privileged interests" (in President Dmitry Medvedev's words<sup>3</sup>) are backed



with muscle. At the same time, though, the war provided a clear test of the military, and one that identified equally clear shortcomings. This was seized upon by Defense Minister Anatoly Serdyukov and his Chief of the General Staff, Nikolai Makarov, as ammunition in their campaign to bring meaningful reform to the military. They had been appointed in 2007 and 2008, respectively—despite serious misgivings about both of them within the high command—with an explicit mandate to that effect. However, from the first, they faced open opposition and covert resistance, and it would take the Georgian conflict to force their recalcitrant generals to accept the need for radical change in the name of modernization and operational effectiveness. As Makarov noted, “We had serious drawbacks in the conflict and learned a number of lessons. We will deal with them as soon as possible.”<sup>4</sup>

Thus in October 2008, Serdyukov announced a far-reaching package of reforms intended to break away from the old Soviet-model armed forces based on the expectation of fighting a mass, conventional war on the plains of Europe or northern China. The main elements were a reduction in the total size of the military from 1,130,000 to one million, with a particular pruning in the bloated officer corps (to shrink from 355,000 to 150,000); the replacement of conscript sergeants with professionals; further efforts to attract and retain good-quality *kontraktnik* (contracted) volunteers, in part through significant pay rises; the abandonment of the division as the basic building block of the ground forces, to be replaced by more flexible and smaller brigades; and eliminating skeleton units whose only role was to be ready to accommodate reservists in a time of general mobilization.<sup>5</sup> This represented a dramatic reorientation of Russia’s military structures and

thinking and could only have been done with the full support of both Vladimir Putin and Medvedev. It also represented a major logistical challenge, but nonetheless the initial stage, the reorganization of divisions into brigades and the dissolution of numerous under-strength formations (only 17 percent were fully-manned and operationally ready<sup>6</sup>), was carried out through 2009 with surprising ease and speed. By the end of the year, 203 army divisions, many of which existed only in part or on paper, had been replaced by around 70 brigades (to rise to 83).<sup>7</sup>

If Russia is to go through a truly meaningful and sustainable defense reform, though, this can only be the first step. Ultimately, reform will have to go further even than Serdyukov and Makarov admit or probably even realize if Russia is to be able to create genuinely world-class forces able to match those of the first-rank powers of the day into the next several decades and to be able to do so without bankrupting the state. This will mean continued reductions in the total strength of the military, not least so as dramatically to reduce the dependence on conscription—perhaps even finally to carry out long-standing promises to transition to an all-volunteer army. In the process, Russia will also have to develop a credible and forward-looking doctrine and operational art matching a realistic set of threats and potential missions. Meanwhile, a stubborn resistance to buying foreign-made equipment, which is admittedly now being broken down, will have to give way to a realistic appraisal of the limits of Russia's defense industries.

All in all, this will represent a comprehensive assault not just on the self-interest of many senior officers (especially as cuts continue to reduce the number of general rank positions) but also the self-image of

the military as a whole. As Dale Herspring has put it, “the closest comparison of these reforms, in terms of magnitude, is the early communist period when a totally new structure was imposed on the remnants of the Bolshevik Army.”<sup>8</sup> There has been inevitable resistance from within the high command, as well as a rising tide of complaint within the ranks as a whole. After all, Serdyukov’s announcements led to a volatile situation in which expectations have risen more quickly than conditions and living standards for most soldiers remain appalling. There is thus a growing and sometimes orchestrated backlash against Serdyukov’s reforms. Speaking to veterans and serving soldiers in Moscow around the 2011 *Den’ Pobedy* (Victory Day) celebrations, I was struck by how persistently they deployed the language and imagery of a “crime” against the military. This kind of language even seems to have been adopted by ordinary soldiers and junior-level officers, men who received a very poor deal in the old order and who are benefiting from slow but real improvements in pay and conditions, as well as the two-steps-forward-one-and-a-half-steps back campaign against the pervasive culture of *Dedovshchina* (violent, rank-based bullying) and the exploitation of the rank-and-file by the senior officer corps. The worrying prospect is that this could conceivably be the start of some new iteration of a Weimar Germany-style “stab in the back” myth<sup>9</sup> in the future, providing fertile soil for a nationalist-military alliance. In the shorter term, though, it is more likely part of a political campaign to make the Serdyukov-Makarov reform program politically unpalatable, especially on the eve of parliamentary (December 2011) and presidential (March 2012) elections.

Nonetheless, this rhetorical device does suggest a potentially interesting alternative way to conceptualize the reform program and its prospects and preconditions for success. If crime this be, then what better framework to understand it than the *Sledovatel'* or Russian police investigator's traditional trinity of means, motive and opportunity? Analyses of military reform tend to focus on specific policies or practical constraints, from the demographic to the economy. They also often fail to address quite what "success" may be, and in this case, it means not just carrying Serdyukov's changes through to completion, but doing so in such a way as to leave Russia with viable, usable armed forces meeting the country's political needs and economic resources. Traditional analyses are entirely valid and useful,<sup>10</sup> but maybe it is also helpful to break the preconditions for reform down into more thematic and less specific categories and seek to quantify them. For each of nine separate preconditions, an assessment will be made of the plausibility that it will provide the necessary support for reform, ranging from "No" (1), through "Unlikely" (2), "Possible" (3), "Likely" (4) and "Almost Certain" (5). From these, it will be possible simply to identify the nature and spread of preconditions met and unmet for long-term and self-sustaining reform, and briefly to compare the military's prospects with those of the police and the security and intelligence apparatus.

## MEANS

At the risk of being extraordinarily banal, without the ability to commit a crime, no crime can be committed. Likewise, there are certain fundamental prerequisites without which no military reform is even plausible.

## Conceptual Capacity.

In many ways the hardest thing, especially within political systems with limited genuine pluralism of views (which Russia undoubtedly remains), is to be able to generate a viable and compelling vision for change. It is relatively easy to develop plans built upon relatively minor, incremental change: similar but better weapons, slightly fewer soldiers who are slightly better trained, fixing specific problems that have come to light. Stripped of grandiose rhetoric, this was, in essence, the basis for most of Russia's proposed military "reform" programs (not that they deserved this name) through the 1990s and into the 2000s. There certainly were those who could see and advocated more substantive changes, but they were marginalized by a range of factors: a lack of resources, a belief that maintaining a large army provided security and prestige, the self-interest of the officer corps, and an unwillingness of the part of the political elite to confront the *Siloviki*, the political lobby that formed around active and former military and security officers.

However, there does seem to be grounds for cautious optimism on this front. In 2010 a new military doctrine was adopted that, while fundamentally very close to its 2000 predecessor, does represent a welcome intrusion of a modicum of realism into Russian defense thinking. That does not, of course, necessarily mean that it makes Russia a less problematic country for its neighbors or the wider world. While on the one hand, the 2010 doctrine embodies a grudging retreat from claims to a truly global status, on the other, it articulates a much sharper and arguably more aggressive assertion of its regional power status and, indeed, its claims to hegemony in post-Soviet Eurasia.<sup>11</sup> Maybe

Moscow has come to realize the wisdom of Frederick the Great's dictum, that if you try to hold everything, you hold nothing. The last years of the Medvedev presidency saw less global grandstanding and need-less posturing, including hints of a more positive line on preventing Iranian nuclear armament after he expressed alarm at U.S. Central Intelligence Agency (CIA) reports of the program.<sup>12</sup> However, this was not so much conciliatory as reflecting an acknowledgment that it is better to focus effort and political capital on what really matters to Russia. There certainly has been no relaxation in efforts to secure Eurasian hegemony and eject foreign influence from the region.

Together this does imply an erosion of some of the assumptions of the 1990s and even 2000s, which were still in so many ways informed by Soviet-era (or rather, Brezhnevian) beliefs as to Moscow's place in the world and global role. In place of skeletal divisions intended as little more than vessels for mobilized reserves, the army has been reorganized into higher-readiness brigades designed for interventions that, in Serdyukov's words, are "more flexible, mobile, and modern,"<sup>13</sup> with brigade commanders expected to be able to use an unprecedented—for a Russian army—degree of personal initiative.<sup>14</sup> After a lengthy period of neglect—receiving virtually no new aircraft between 1995 and 2008—the air force is being modernized with an eye to ground support and air defense rather than long-range operations; and the navy, while proudly vaunting a blue-water capability and talking of future aircraft carrier battle groups, is actually shifting to smaller, multipurpose vessels geared more for defense and (possibly multinational) peacekeeping and intervention operations. A reformed military, after all, is meant to be a more usable one.

That said, though, there is still a clear disconnect between broad political beliefs about the importance of change and a coherent and, above all, operationalized reform program. There is a reasonable, if not especially impressive, amount of thinking and research taking place as to how military structures can be operated and fight at a brigade level or lower, even if it remains to be seen how well it will be applied. Chief of the General Staff Makarov, who has a professional background in the area, has put considerable emphasis on the need to improve the level of practical training taking place. Beyond basic technical skills, though, training must reflect both doctrine and operational art, and here issues arise. There seems, after all, to be a dearth of clear and effective thought about how reform affects the strategic and operational levels—ironically two strengths of the old Soviet system. In March 2011, Makarov made a strongly-worded attack on the work of the Academy of the Military Sciences, clear evidence that much needs to be done. His attack also showed his (and Serdyukov's) recognition of the need for a decisive break with old thinking. "In the past 20 years, we were not able to bring military art up to a modern level and we continued to live with obsolete concepts about the nature of modern wars," he said.<sup>15</sup> This problem is exacerbated by the torpor of the General Staff's Main Operations Directorate (GOU), its main planning and coordinating organ. After the removal of Colonel General Alexandr Rukshin, a vocal opponent of reform, in 2008, the GOU was without a head for several months. Then the position went to Lieutenant General Sergei Surovikin, a fighting general brought in to purge the GOU, not inject any new ideas. He lasted just over a year, and his successor, Lieutenant General Andrei Tretyak, who was no in-

tellectual powerhouse, requested dismissal on health grounds in mid-2011. He was eventually formally removed in October and replaced by Lieutenant General Vladimir Zarudnitskii, a line officer with a respectable but hardly inspirational pedigree. Meanwhile, the GOU has been cut by three quarters, to 150 officers, arguably at the very time when it is most needed.<sup>16</sup>

Thus it is impossible to be entirely optimistic. There does seem to be a greater awareness than at any time since 1991 of the invalidity of the Soviet-legacy military policies that have dominated Russian security thinking. There are also some people thinking hard about how to adapt to a new world of network-centric warfare and limited interventions. However, there are not enough, and in many cases, they are still either marginalized or else being forced to think at a purely tactical level.

Overall Assessment: **Possible (3)**

### **Economic Capacity.**

Reform costs money. Although we have no firm figures for the total reform package, military rearmament alone in the 2011-20 State Armaments Program is meant to cost 19.4 trillion rubles (\$688.35 billion) to 2020, and Medvedev pledged that the state would continue to spend at least 2.8 percent of gross domestic product (GDP) on defense until then.<sup>17</sup> In this context of the fall-out from the 2008 global economic slowdown and uncertainty as to long-term fluctuations in the oil and gas prices on which the Russian tax base depends, it is legitimate to ask whether Russia has the money now and will it in the next decade.

Although Steven Rosefielde expresses his doubts in Chapter 2 of this collection about the long-term



prospects of the Russian economy compared with that of Western Europe, when it comes to funding military reform, again, there is scope for some cautious optimism. Despite the long-term problems facing the Russian economy, which will almost certainly impact the Kremlin's aspirations, short- and long-term projections alike suggest that while Moscow may not have as much money as it would like (who does?), it will have enough to be able to continue a viable reform program and maintain credible forces capable of both national defense and at least a limited power projection role. As of this writing, the World Bank is currently projecting 4 percent economic growth in 2011 (the Russians themselves claim 4.1 percent), which compares with the global figure of 3.2 percent the World Bank is predicting.<sup>18</sup> Further out, the Euromonitor predicts that Russia will have the world's fifth largest economy by 2010, and PricewaterhouseCoopers (PwC) assesses that even by 2050 it will be the sixth largest.<sup>19</sup>

Of course, it is vital to appreciate — over and above the pitfalls of any such projections — the associated variables coming to bear here. What proportion of national budget will the leadership be willing and able to devote to the military (which relates to the *Will* factor discussed below)? According to the Stockholm International Peace Research Institute (SIPRI), for example, 2010 saw the real spending on national security reach 5 percent of GDP compared with the official 2.8 percent, suggesting that even under Medvedev, there was a determination to maintain a strong defense spend.<sup>20</sup> Will this money be spent wisely (which, to a large extent, depends on the realization of sufficient *Conceptual Capacity*) and what proportion will be embezzled or devoured by inappropriate procurement, padded supplier prices, and excessive margins (which will de-

pend on suitable *Human Capacity*, *Traction with Agents* and *Traction with Suppliers*)? Nonetheless, in raw terms it looks as if the Kremlin will have the money to spend on reform, albeit not without having to withhold it from other, arguably more important sectors, such as health and infrastructure.

Overall Assessment: **Likely (4)**

### **Human Capacity.**

In other words, are there the people to enact change, whether effective leaders at the top, or those with the necessary skills or capacities at the bottom? Military reform in Russia entails limited downsizing, but a more than proportionate qualitative improvement in the training and ability of the remaining soldiers. There is a need for able and above all committed personnel to manage the process, both at the top and also lower down the structure. More to the point, there is also the need for adequate numbers of common soldiers.

Within the senior command structure, it is hard to be wholly bullish. The Serdyukov-Makarov combine has proven unexpectedly successful, but is beleaguered. It has drawn on capable individuals outside the military structure, including Deputy Ministers Anatoly Antonov, Dmitri Chushkin, Tatiana Shevtsova, Mikhail Mokretsov, Nikolai Pankov, and Alexander Sukhorukov (First Deputy Minister for procurement). Antonov hails from the Ministry of Foreign Affairs; Pankov, the secret police (KGB/FSB) apparatus; Chushkin, Mokretsov, and Shevtsova, from the tax service (Serdyukov's old fiefdom); and Sukhorukov also spent some time within the tax service as well as the finance ministry and prime minister's office.

As of this writing, of the eight deputy ministers, only two – Makarov and Dmitri Bulgakov (responsible for logistics) – are career military.

On one level, this is a liability and a sign of Serdyukov's relative isolation within the ministry (pointing to problems exerting *Traction with Agents*). It has sometimes led not only to clashes with the General Staff apparatus and the service chiefs but also to signs of a lack of a full understanding of how a national military works. In October 2008, for example, Serdyukov announced plans to reduce the number of officers in the military from 355,000 to 150,000, complaining that the current structure of the military was "like an egg, swollen in the middle, we have more colonels and lieutenant-colonels than junior officers," and with far too many officers than regular soldiers.<sup>21</sup> By the end of 2010, some 129,000 officers had been discharged – but in March 2011 he then reversed his position and announced that the size of the officer corps would be increased from 150,000 to 220,000 by 2012, a process that would in part involve rehiring former officers.<sup>22</sup> He presented this in terms of the need for highly-qualified technical specialists for the new unified Aerospace Defense Command created in 2011.<sup>23</sup> In fact, this u-turn also seems to have reflected not just unease at the scale of resistance from officers, veterans' associations and some political lobbies, but also a failure to consider the full need for capacity to cover periods of leave and illness. On the other hand, while the new defense ministry elite may lack the ingrained expertise of their uniformed predecessors, their ascendancy does also mean that there is scope for new thinking unconstrained by tradition, arm of service loyalty, and peer pressure, all of which played a substantial role in the past.

Further down the chain of command, modified training programs and above all the new emphasis on noncommissioned officer (NCO) training will have a real impact on the nature and character of the Russian tactical command structure if they are carried through. It is proving difficult to build up a reliable and effective cohort of professional NCOs, despite creating a new specialized training program in Ryazan.<sup>24</sup> Nonetheless, a professionalized and competent NCO corps (even if initially there will be too few of them), combined with more effective training for junior officers, would address some of the key problems of the military. More NCOs would slowly free up junior officers from many of the inappropriate duties they currently carry out and also provide a sideways response to their shortage: even if it is not possible to increase their total number, the pressure will be eased by reducing the need for them. This would open up wider reform opportunities; for example, qualitative improvements permit further quantitative reductions. The question is whether this can come to pass.

Above all, will there be enough soldiers? In 2009, following the reduction in the draft from 2 years to 1, some 575,000 young Russians were conscripted, a figure that fell to 540,000 in 2010. In 2011, by contrast, the projected figure is 353,000.<sup>25</sup> Present plans would suggest that, with a 12-month national service cycle, the Russian army needs 600,000-700,000 draftees a year—near enough the full cohort of young Russian males reaching draft age. Given that this is a shrinking pool and thanks to health, education, and other exemptions and deferments, only around 400,000 are actually eligible, this appears an intractable challenge.<sup>26</sup> Furthermore, the 1-year term locks the military into a regular and disruptive churn of personnel and scarce-

ly provides the time for adequate training. One officer in a brigade regarded as one of the better ones in the Moscow region told me that it takes 9 months for the recruits to be “soldiers rather than trainees,” and their last month is often marked by premature “demob happiness,” such that he felt they only really were truly effective for 2 months. That said, it is not likely that a return to 2-year national service would be politically palatable to the Kremlin, even though the Communist Party has advocated an 18-month term.<sup>27</sup>

However, there are signs of awareness of this. Markarov is now talking of an ideal figure of 10-15 percent of the armed forces being conscripts,<sup>28</sup> which would mean only 100,000-150,000 draftees a year. While to date the *kontraktniki* experiment has not been a particular success, this was to a considerable extent due to active resistance and sabotage within the military.<sup>29</sup> Given that the recent trend has been for a hemorrhage of contract soldiers, it may seem naive to be at all optimistic.<sup>30</sup> However, these are not intractable problems. There are questions as to whether the planned pay increases – by 2012, regular contract soldiers will receive 35,000 rubles a month (\$1,130) – will be enough, especially as the militarized elements of the security apparatus will probably be willing to top this.<sup>31</sup> Nonetheless professionalization could be addressed by a combination of greater buy-in (or discipline) within the military, higher wages, and a general economic slowdown. After all, while the unemployment rate has fallen from 7.5 percent to 6.4 percent in later 2011, many of these new jobs are in very low-salary sectors, against which a military career may look appealing. If Serdyukov succeeds in his efforts to “humanize” military service with better food and accommodation, more scope for leave and the outsourcing of the more

menial duties characteristically assigned to soldiers – and which occupied up to a third of their day, eating into training time – this might also improve the prospects for recruitment and retention.<sup>32</sup>

In the longer term, there is also scope for further shrinkage of the military to a size more in keeping with Russia's economic and demographic capacities. Former deputy defense minister Vitaly Shlykov, perhaps the doyen of Russia's defense analysts, has expressed the view that half a million well-trained and motivated soldiers are better than a force twice the size that is also full of the inept, the badly-trained, the criminal and the unfit.<sup>33</sup> In 2011, the Russian Institute of Contemporary Development (INSOR), a think tank meant to be close to Medvedev, published a major report on *Discovering the Future: Strategy 2012* that advocated creating an all-volunteer military some 400,000-500,000 strong by 2018, even at the cost of increasing defense spending to 3.5 percent of GDP.<sup>34</sup> This is unrealistic, not least in its time frame, but this kind of prescription is even gaining some traction within the ranks, too. In conversation with some officers from the GOU, I even heard the suggestion that someday Russia might have the same soldier-to-population ratio as France, which would imply a military cut to a strength of 460,000-470,000. This is hardly likely in the immediate future, but it was interesting to hear it being floated by a hard-nosed career soldier who clearly wants and anticipates further promotion. Either way, demographic pressures make the status quo increasingly untenable. Medvedev is on record as saying that "for the next 10-15 years, [Russia's] recruiting system should combine both conscription and contracting" without comment about the balance between professionals and draftees.<sup>35</sup> Whether through dramatic

force reductions, by conscripting and recruiting women, or professionalizing the military – or a combination of the three – Russia will have to make substantial changes.

Overall Assessment: **Likely (4)**

## MOTIVE

Crimes are committed for a reason; reforms likewise. After all, change is harder than continuity, even if the latter means a shabby decline that seeks to retain the forms of the past while losing its real nature. In the short term, reform is also usually more expensive. Maintaining the appearance of the status quo was good enough for Leonid Brezhnev and in a way Boris Yeltsin, too. Given that, what reasons would the national leadership have to grasp the nettle of reform?

### **Threat.**

How far has Russia's perception of the near- and long-term threats it faces changed? This is a difficult one to assess, as rhetorically one could argue that worryingly little has moved on. The North Atlantic Treaty Organization (NATO) is still regarded as an actively hostile bloc, whose expansion into Eurasia is listed in the 2010 doctrine as the greatest military danger (which is admittedly different from a threat) to Russia. Likewise, attempts to "destabilize states and regions" near Russia – to Moscow, events such as the Ukrainian "Orange Revolution" and Georgian "Rose Revolution" proved not that people wanted change, but that nefarious Westerners were engineering pro-democracy movements in Eurasia – are explicitly listed as a danger in that document. Moscow's take on the Arab

Spring, and Libya in particular, have only sharpened this genuine belief in a conspiratorial pattern to global developments. This certainly came up in the context of the *Tsentr*" 2011 Collective Security Treaty Organization (CSTO) exercises, in which the CSTO Rapid Reaction Force was deployed to put down a putative coup attempt in Tajikistan.<sup>36</sup> Makarov made the connection explicit: "The processes taking place in North Africa and the Middle East were difficult to forecast. . . . This has to be a warning to all states. We have similar questions for the Central Asian countries. We must be prepared for anything. This is why we are practicing with these drills."<sup>37</sup>

All this sounds as if Moscow still believes it must prepare for both a mass war against invaders from the west or the east as well as for major military incursions as the gendarme of Eurasia.<sup>38</sup> However, the detail and the pattern of military organization and procurement suggest a more nuanced perception of the threats facing Russia. The switch to brigades provided an opportunity to move away from the implicit planning assumption that military manpower and organizational policies were ultimately to be determined by the need to maintain a mobilization structure for a multi-million-man mass army. This has long been a crucial planning constraint and also led to a huge wastage of resources on facilities and equipment being maintained for a someday-never Big War. To be sure, Russia still fears and plans for a future confrontation with China,<sup>39</sup> but it is increasingly coming to terms that such a conflict would not be the Great Patriotic War redux so much as one to be deterred through the ability to focus high-impact forces in specific crucial engagements, political alliances, and the threat of tactical or strategic nuclear response. Likewise,



NATO is still seen as a challenge, even a threat, but not a military one. Its efforts to undermine friendly regimes, woo the undecided, and exclude Russia from its rightful place—as Moscow perceives it—can best be dealt with through a combination of bare-knuckled diplomacy, energy politics, and the creation of credible, rapidly-deployable intervention forces.

After all, if by its deeds Russia does not seem to see a serious threat of mass war, it certainly is developing the capacity to deploy smaller intervention forces regionally. For example, the emphasis in procurement is largely on lighter forces more capable of rapid deployment, local intervention and full-spectrum warfare. From the decision to expand and re-equip the complement of snipers within the army, especially in eastern formations,<sup>40</sup> as well as spending on wheeled vehicles rather than tanks, to the money being spent on the fighter fleet (even while the long-range bomber fleet is decaying) and C3I systems, following the money suggests Russia is at last waking up in more than just a rhetorical way to the age of network-centric warfare. The primary threats for which Russia is practically preparing itself for are not massive conventional conflicts but smaller-scale interventions in Eurasia (and conceivably within Russia) which will shade across from military aid to the civil power through to rapid incursions to effect political change.

Overall Assessment: **Almost Certain (5)**

## **Value.**

This is the flip-side complement of the previous point: has the leadership changed its notion of the benefits it can derive from its armed forces? To an extent, this can simply be posed as a question: would a

reformed military do a better job responding to the kind of threats envisaged? The successful (in Moscow's eyes) outcomes of the Georgian operation—for all the numerous failures in actual execution—certainly point to the value of having the capacity to launch effective interventions in Russia's strategic neighborhood. Likewise, the rescue from Somali pirates of the tanker *Moscow University* and its crew by naval infantry from the destroyer *Marshal Shaposhnikov* in 2010 is still held up as an example of precise and professionally-executed power projection that married military and political success.

Although the Kremlin continues to harbor certain long-term and existential fears, especially around China's future capabilities and intentions, its current thinking appears to be that it will benefit from armed forces that are sufficiently professional and well-equipped to be usable without a massive advantage in numbers; that can be mobilized and deployed quickly; and that are flexible enough for a variety of missions, from limited intervention and counter-insurgency to out-of-area peacekeeping and all-out war. Serdyukov has described his goal as creating "a performance-capable, mobile, and maximally armed army and navy ready to participate in three regional and local conflicts, at a minimum."<sup>41</sup> In keeping with this, Russia's transport air fleet is being expanded, with plans to buy an extra 35-40 Il-476 planes from 2014 to supplement the existing Il-76 fleet and Ukrainian-built An-70s for 2015-16.

These kinds of forces are also more relevant to the kind of multinational operations that the Kremlin is willing to entertain. The 2010 doctrine makes explicit reference to Russia's "right" to intervene to protect Russian nationals abroad, a right clearly invoked

during the 2008 Georgian war. Likewise, the CSTO's Collective Rapid Reaction Forces (KSOR) formed in 2009, while formally under multilateral control, are essentially dominated by Moscow. When Belarusian President Alexander Lukashenka suggested that KSOR could be used to suppress attempts at regime change within CSTO member countries—because, in his words, “nobody is going to wage a conventional frontline war against us, but there are quite a lot of those whose fingers itch to carry out a coup d’etat” — he received a cool response from Moscow.<sup>42</sup> However, CSTO Secretary-General Nikolai Bordyuzha separately said the CSTO might intervene when member states’ governments “are unable to protect the constitutional order, the lives and safety of citizens are threatened, and violent mass disorders are under way.”<sup>43</sup> The difference between the two is essentially in detail, and it is clear that the Kremlin—whose views dictate Bordyuzha’s—is happy to see the KSOR or other CSTO forces deployed in Russian-led stability operations, which would help consolidate Moscow’s regional hegemony.

When Kyrgyzstan’s interim government appealed for Russian and CSTO aid in 2010 to put down a violent insurrection in the south, Moscow demurred, not least because it lacked the kind of forces trained for public order duties and able to be mobilized to the country in time. However, military reform will provide those forces, with brigades notionally ready for deployment within an hour of alert (although rarely will this actually be possible) and an increasing number receiving specialized training, equipping them for missions ranging from Arctic warfare to peacekeeping and public order.<sup>44</sup> In this way, a reformed military is also a foreign policy asset, a tool to support friendly

regimes in Eurasia and, by implication, put pressure on those not fully aligned with Moscow.<sup>45</sup>

Overall Assessment: **Almost Certain (5)**

### **Spin-off.**

The irony of military forces is that they are configured, recruited, armed, and trained to fight wars, yet typically spend most of their time not fighting. (Even at the peak of the Soviet-Afghan War, for example, Russia's most extensive military action since the 1968 invasion of Czechoslovakia, no more than around 150,000 troops were deployed at any one time out of a military establishment of some two million.) Fighting and deterring wars may be the military's main role, but they also have many others, from socializing minorities to supporting the economy. It is thus important also to consider the incidental or subsidiary benefits associated with reform, over and above how well the armed forces actually fight wars. A number have been noted by reformists that appear to have gained traction in the Kremlin.

First of all, a smaller military, less of an emphasis on conscription, and a scaling down of the military-patriotic education infrastructure created to support the draft, all mean less of a role for the armed forces as tools of socialization. However, this is probably no bad thing. Compared with the ideal of national service engendering patriotism and a sense of common national purpose, the regular litany of miseries of army life—bullying, poor conditions, criminality and abuse<sup>46</sup>—has actually created a process of “shadow socialization,” brutalizing and dismaying recruits. According to Chief Military Prosecutor Sergei Fridinskii, crime in the army rose by 16 percent in 2010, and while

registered crimes fell by 10.6 percent in the first half of 2011, the actual size of the military fell by a greater amount, so in per capita terms criminality continued to rise.<sup>47</sup> Inevitably, this leads to crime in society as a whole as angry and brutalized young men return to the home front. More broadly, this has encouraged and legitimized a culture of not only evading the draft, but also demonizing the military in mainstream society. There is a better chance of dealing with these systemic problems (which date back long before 1991) in a smaller, better treated, and more professional army. In the process, a military life becomes less of a terror and ex-soldiers less likely to be damaged, delinquent, or disillusioned. Although this point has not been publicly aired, the leadership may also be aware that a more professional army might not only be insulated from some of the wider social problems of Russian society, as well as contributing to them, but also be less politically expensive to use: the sad truth is that the wider public tends to have a more permissive view of professional soldiers' deaths than those of conscripts.

More significant is the extent to which military reform is seen as a way of taming the defense budget. Not to allow reductions, as there is a clear awareness of the cost of retraining, rearmament, and the retention of good soldiers. Rather, to tackle the extraordinarily high level of waste and embezzlement of state budgets earmarked for military purposes (in other words, to address the problem of *Traction with Agents*). In this respect, a new enthusiasm for buying foreign-made military technology—French landing ships, Italian FIAT IVECO light armored vehicles, Israeli drones—not only acts as a useful corrective to the power and entitlements of the domestic arms industry, it also offers the prospect of accessing at least

a degree of advanced Western technology as well as providing a stimulus for development of the domestic defense industrial sector. The Tatarstan-based Kamaz enterprise, for example, will assemble Russia's new M65 light armored vehicles, while collaboration deals for *Mistral* amphibious landing ships are driving the construction of new shipyards on Kotlin island near St Petersburg.<sup>48</sup> At least as important are current and future deals for C3I systems and co-production agreements with Western companies considering Russia's evident technological lag, as domestic projects such as the YeSU TZ automated command and control system continue to be delayed and problematic.<sup>49</sup>

In short, there are collateral political, social, and economic benefits that could potentially accrue from radical defense reform. In the process, this not only gives the Kremlin more reason to forge ahead (supporting its political *Will*), it also provides a further rationale for assigning the necessary resources to reform (the *Economic Capacity*).

Overall Assessment: **Likely (4)**

## OPPORTUNITY

Having the intention and capability to commit a crime is not enough in and of itself: there also needs to be the opportunity. Likewise, without the necessary political and practical context, no reform program can succeed.

### **Will.**

Sustained political will is a crucial prerequisite for any substantial (and expensive) military reform, one which will take not months, but years or even up to a

couple of decades. This is often a particular problem within a democratic system, as it requires a degree of consensus able to survive changes in government and the crises and concerns du jour. In this respect, Russia is actually at an advantage in that so far the Putin-led regime has proven stable and lasting, spanning across the Medvedev presidency and, with the latter's September 2011 endorsement, beyond the 2012 presidential elections, potentially out to 2024.

Despite differences in nuance and idiom, both Putin and Medvedev have been united on the basic outlines of military reform and thus – unless derailed by events or wider political calculations – it can be presumed that the present policy will extend for the foreseeable future. Furthermore, the regime appears disinclined to tolerate open resistance from the military for a combination of reasons ranging from practicality to an ingrained Soviet-era fear of “Bonapartism.” While there is still scope for foot-dragging by the generals, there is no credible threat of open defiance.

Overall Assessment: **Almost Certain (5)**

### **Traction with Agents.**

Can the subject of reform be made to embrace the process? After all, as Rod Thornton has put it, “The Russian military, as a whole, does not want to modernize; or rather, it does not want *to be* ‘modernized’ in the way that its political masters want.”<sup>50</sup>

The extent to which the military high command, or key elements within it, is hostile to reform is apparent and well-known. It is also clear that while Serdyukov and Makarov dispose of the political firepower to deal with particular egregious or isolated critics, they are not able to purge the senior officer corps as a whole,

not least because of the lack of suitably effective and like-minded alternatives. Even apparent allies may prove to be less reliable once in place, especially as they are worked on by the rest of the military elite. For example, when Ground Forces commander-in-chief Colonel General Vladimir Boldyrev retired in 2010, he was replaced by Colonel General Alexander Postnikov. Former commander of the Siberian military district and perhaps more importantly a former subordinate of Makarov's, he was seen – not least by Makarov – as “his” man. In practice, though, by late 2011 Postnikov appears to be trying to tread a delicate line between implementing reforms and resisting them where they are seen as impinging on the interests of the Ground Forces.

On the other hand, the regular departures from senior positions as well as the risk of actually worsening one's institution's position by being seen as recalcitrant (several naval officers feel – rightly or wrongly – that the decision to move their headquarters to St Petersburg was a punishment for their efforts to lobby politicians against change and a failure to make efficiency savings) may be beginning to act as a deterrent to resistance. Furthermore, it is vital to appreciate that the high command is not a monolithic lobby. Sometimes, there is more sound than fury in apparent protests, and conspiracies and protests can actually be explained away by other processes or bureaucratic infighting between factions and interests rather than opposition to reform.<sup>51</sup> However, this is not to underplay the problem. As the *Kontraktniki* debacle demonstrated, if the military hierarchy is opposed to change and adequate control mechanisms are not in place, then they have a wealth of opportunities to derail reform.



If the high command can be tamed, then the rest of the officer corps will probably follow, so long as the resources are provided (requiring *Economic Capacity*) to attract, retain, and motivate them (meaning *Human Capacity*). If the program to expand a cadre of trained, volunteer NCOs succeeds, then this will also be a great asset, even if the planned abolition of the otherwise-redundant warrant officer rank—a process launched in 2008 and then reportedly frozen in 2010—goes ahead.<sup>52</sup>

However, throughout the armed forces a remaining key control variable is criminality and indiscipline.<sup>53</sup> The *dedovshchina* that still grips the rank and file is debilitating and counter-productive,<sup>54</sup> but arguably more serious are the challenges of embezzlement, corruption, and organized criminality throughout. The creation of a new military police force in 2011 under Makarov's apparent leg-breaker-in-chief Surovkin may conceivably help, but it will take years for this to be properly operational.<sup>55</sup> In the mean time, military corruption drains and diverts the defense budget: some reports say up to a third is embezzled, while the Military Procurator's Office has put the figure at 20 percent.<sup>56</sup> A personal estimate—subjective as it is, based largely on open source reports and anecdotal accounts—suggests 5-7 percent is actually stolen, with perhaps as much again instead diverted to alternative functions (such as providing repairs for officers' apartments that ought to have been covered by military funds), for a total of 10-14 percent lost, still equivalent to more than \$8.8 billion.<sup>57</sup> This culture of endemic corruption also fosters indiscipline and self-interested and mutually-protective cabals of criminalized officers.

Overall Assessment: **Possible (3)**

## Traction with Suppliers.

One of the crucial, if often subterranean, forces impeding meaningful reform has been the role of the defense industries as lobbyists and also as the dominant players in their relationship with the defense ministry, forcing them to accept equipment not of the specification they wanted or else, more often, late and over-price (so unlike the situation in the West). Insofar as reform depends on technological modernization and the effective use of finite resources, the ability to force suppliers to comply with the needs of the process thus becomes a critical potential constraint.

This helps explain the failure of successive iterations of the *Gosoboronzakaz* (GOZ), or State Armaments Order.<sup>58</sup> Speaking to a State Duma hearing on the draft 2012-14 budget in October 2011, Deputy Minister of Economic Development Andrei Klepach admitted that the 2011 GOZ “will not be substantially fulfilled this year and it is highly probable it will not be fulfilled next year.”<sup>59</sup> At the same hearing, Valery Goreglyad, Deputy Chair of the Audit Chamber, criticized the (in)effectiveness of the GOZ process and called for a completely new process to assign and manage orders. It has been estimated that the 2010 GOZ was 30 percent unfulfilled: according to Boris Nakonechnyi, deputy head of the Defense Ministry’s Directorate of State Defense Order Formation, that year a corvette, three submarines, three of nine ordered Yak-130 trainer aircraft, and 73 of 151 ordered BMP-3 infantry fighting vehicles were never received.<sup>60</sup>

After all, the failure of the Russian military-industrial complex (VPK) to meet its orders has become legendary. For example, the RSM-56 Bulava submarine-launched ballistic nuclear missile has suffered a

string of failed tests (although 2011 may have been the year it turned the corner) while the *Borey*-class submarines built to mount it are waiting for it to become operational. In part, this reflects a simple inability to master the technical challenges of new-generation systems. In part, it is a product of inefficiency and clumsy management practices. At the end of 2010, an official from Rostekhnologii, the state holding company tasked with supporting defense research and export, admitted that many of the defense firms it was forced to take over were, to all intents, bankrupt because of embezzlement, mismanagement, problems meeting the state defense order, obsolescent technologies, and a lack of development capital.<sup>61</sup> Given that, as one article in the specialist press bemoaned, “The Russian military industrial complex is basically equipped with aging Soviet equipment, and in need of fundamental modernization”—according to another account, 70 percent of all its machinery is 20-plus years old—one could see the solution to be a combination of better management, more investment where it will make a difference and allowing enterprises to go under when it will not.<sup>62</sup> Already even old giants of the VPK such as the Tupolev aircraft corporation are arguably moribund.<sup>63</sup>

Yet the problem is also one of VPK culture and political pull. Enterprises also sometimes fail to meet defense ministry requirements and order because of a willful refusal to prioritize domestic orders compared with exports, given that the latter tend to offer higher immediate profit margins or are backed by government export credits. Meanwhile, they have tended to rely on political contacts or a simple lack of alternatives to maintain their domestic order books. As Markarov complained,

Many producers do not want or are not able to produce prospective weaponry and military equipment. They are turning out products that the Armed Forces do not need. But the General Staff will no longer buy what the Armed Forces do not need, no matter how much the defense industry enterprises try to persuade us to do so. Whether they like it or not.<sup>64</sup>

Citing an increase in the price of a T-90 tank from 42 million rubles in 2008 to over 100 million by 2011, Makarov also criticized their pricing policies, something Serdyukov also made a key theme. Later in the year, for example, he furiously attacked Sevmash for padding the price of the *Severodvinsk* submarine class, for example, saying that “We are willing to pay, but only if the pricing process is transparent. Practice demonstrates that if all elements in the contracts are ‘decoded,’ then it seems possible with confidence to deduct up to 30% from the final cost of a finished product.”<sup>65</sup>

Here there is again some evidence of reasons for optimism, even if it must be cautious. Makarov’s and Serdyukov’s words represented a stepping up of the defense establishment’s rhetoric, but potentially a more concrete step was the appointment of Alexander Sukhorukov as First Deputy Defense Minister for procurement in August 2011. Sukhorukov was formerly Director of the Federal Service for the Defense Order (*Rosoboronzakaz* or FSOZ), and so the hope appears to be that he will be a tough insider able to tame the defense industries. There is little evidence that he was able to be successful at this in his previous position, but insiders have suggested to me that this was in part because of the political constraints he was under there—while *Rosoboronzakaz* is subordinated to

the defense minister, it must work closely with the VPK—and that he will be more active with his new position. We shall see, but he has a major challenge on his hands. The VPK is a powerful lobby which has proven very adept at leveraging its export successes and the fact that it employs up to 3 million workers (20 percent of all manufacturing jobs)<sup>66</sup> to persuade the Kremlin to maintain what are in effect subsidies through uneconomic orders and padded costs.

Overall Assessment: **Unlikely (2)**

## PROSPECTS

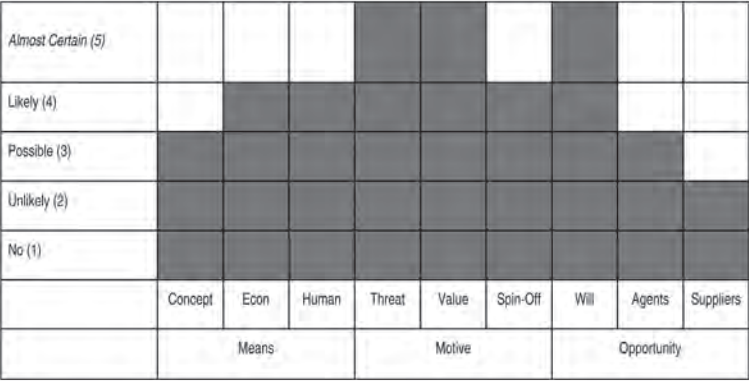
This is, of course, in no way a serious scientific exploration, rather a thought exercise in trying to conceptualize the preconditions for meaningful reform. Under Medvedev—albeit with Putin’s necessary agreement—Russia’s military has embarked upon the first stage of a long-overdue process of modernization and reconceptualization that, if sustained and supported, could create qualitatively different armed forces that, if not at the very leading edge, were at least capable of operating on a modern, network-centric, in a way today’s Russian soldier definitely cannot.

Overall, this exercise suggests that there is an unexpectedly strong *potential* for real and sustained military reform in Russia. However, that potential is by no means certain to come to fruition, and it would be very easy for the process to be derailed. For example, were the political environment to take a further shift towards the nationalist-statist pole, that might not just affect all the *Motive* factors, but also impact on the *Means: Conceptual* and *Opportunity: Will*. However, an even more nationalist regime could conceivably be even more determined to modernize its military.

After all, reform tends to come from a combination of fear and opportunism. Medvedev never managed to develop any real rapport with the *Siloviki*, but he probably spoke for many of them when he said, “We cannot leave our country without the sufficient development of the Armed Forces and law-enforcement bodies. We shall simply be torn to pieces.”<sup>67</sup> During Yuri Andropov’s brief tenure as General Secretary of the Communist Party (1982-84), one of his key aims was to force the Soviet elite to open their eyes to the security implications of their country’s growing backwardness. As a result, one of his most powerful legacies was to change the basis for political discussion: it no longer was about whether change was needed, it was about what kind of change and how it should be introduced. Likewise, for all that Medvedev himself may go down in history as a rather sad figure, a disposable stand-in for Vladimir Putin, and his presidency may have seen a similar paradigm shift within security discourse. Even those advocating a return to 24-month conscription or a larger military are not arguing for a return to a true Soviet model. By the same token, the reformers are basing their arguments as much as anything else on effectiveness, that a new model army will hit harder, further and faster. After all, military reform without political reform would mean that an essentially authoritarian—or at best hybrid “competitive authoritarian”<sup>68</sup>—Kremlin would become rather more capable of throwing its weight around its strategic neighborhood. That it something even the most hidebound general could support.

Rather more serious for the prospects of reform is the risk that an economic slowdown would not only hurt the *Means: Economic* and *Means: Human* columns but potentially leave the government less able to re-

ward its soldiers (*Traction with Agents*) and dictate terms to an export-driven industrial sector (*Traction with Suppliers*). Everything connects with everything else, so a failure in one area can affect many others. See Figure 3-1.



**Figure 3-1. Reform Prospects: The Military.**

In summary, the key preconditions for meaningful military reform would seem to be:

- *Continued political will*, which will maintain adequate spending and empower the defense ministry to tame the high command and VPK alike;
- *Continued economic stability and growth* sufficient to cover the high up-front costs of reform without having such a damaging impact on the rest of the economy that it becomes politically untenable; and,
- *A realistic and comprehensive concept* that draws on the credible threats and opportunities facing Russia and can—in due course—drive doctrine and procurement and win over a new generation of military leaders.

Of these, arguably the third is the hardest to achieve, especially given the need to balance momentum and deliberation. Ruslan Pukhov, director of the Center for Analysis of Strategies and Technologies in Moscow, has cited Tsarist-era modernizer Sergei Witte, who said that, “In Russia, reforms must be carried out quickly and in great haste. Otherwise, most will either fail or falter.”<sup>69</sup> In political terms, he is absolutely right, but debacles such as the flip-flops over professionalization and officer cuts, procurements blunders such as the building of the *Borey* submarines before their Bulava missiles were even close to completion, and the decision to dismiss the head of the GOU just before the Georgian war<sup>70</sup> all demonstrate the danger in over-hasty decisionmaking in defense matters. In short, reform of Russia’s military is possible, but will take a steady hand, a willingness to spend considerable economic and political capital in bad times as well as good, and a clear-sighted understanding of the real threats facing the country and a credible program for how to address them.

## **A CODA: COMPARISON WITH THE SECURITY AGENCIES**

It is perhaps worth finally comparing the situation facing the military with that of the rest of the security apparatus: the Foreign Intelligence Service (SVR), Federal Security Service (FSB), Federal Protection Service (FSO), and the like, as well as the Ministry of Internal Affairs (MVD). Starting with the former, the security and foreign intelligence services, the detail of how these various preconditions are obviously different—dealing with “suppliers” is best conceptualized as acquiring intelligence assets, for example. In a post-



ideological age, though, they will be bought for coin not commitment. Nonetheless, it is possible to draw some broad conclusions.

There is clearly far less of an intellectual commitment for change in this sector and Putin—who even under Medvedev asserted unchallenged personal authority in this sector—has shown no interest in substantive reform, just incremental improvement. This is certainly not a question of a lack of funds, as the intelligence and security sector consumes much less than the military (Julian Cooper suggests they receive some 14-15 percent of the military budget).<sup>71</sup> Nor is it that the security *Siloviki* are flouting efforts to impose change upon them. There have been regular turf wars between agencies and factions, but these have been horizontal struggles for powers, budgets, and perquisites rather than directed against the Kremlin. Instead, it appears that Putin and his spies and secret policemen are united in a belief that they are doing a not just a good job but a necessary one. After all, he appears to see no problem to which they are not part of the answer: even “At a time when we are facing a problem related to modernization of the economy, assistance from the intelligence services is not superfluous.”<sup>72</sup> Thus, there is little likelihood at present of any reform, or even talk of it, because those responsible see no need for it. See Figure 3-2.

Almost Certain (5)									
Likely (4)									
Possible (3)									
Unlikely (2)									
Not (1)									
	Concept	Econ	Human	Threat	Values	Spin-Off	Will	Agents	Suppliers
	Means			Motive		Opportunity			

**Figure 3-2. Reform Prospects: The Security Agencies.**

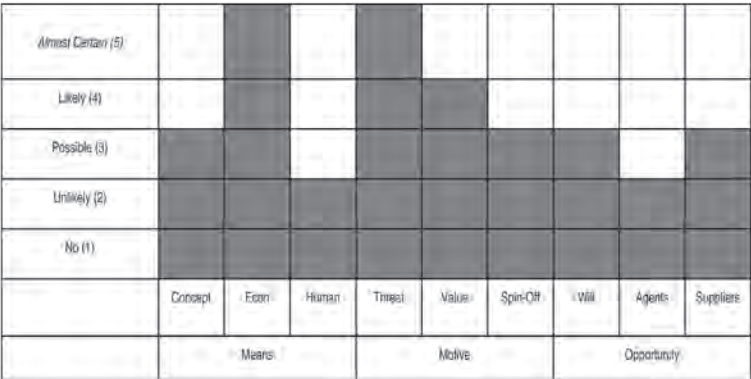
Comparing the situation of the security apparatus and the military directly dramatizes this contrast. The security apparatus has a score of 23—below the 27 even an across the board “Possible” would earn. Conversely, the military has a score of 35. Furthermore, the categories in which a higher score is registered are essentially facilitating rather than initiating ones, demonstrating that were the Kremlin ever to fix on reform, the economic resources would certainly be available, along with the human capacity and levers of control. However, there is no real sense that reform would be needed or that the real threat facing Russian democracy, stability and economic dynamism will come from arbitrary political policing and aggressive intelligence operations, let alone any real notion among the current elite as to what shape reform would take.

Turning to the MVD and other law-enforcement structures, there was under Medvedev a growing appreciation of the practical advantages in reform—if

not necessarily democratization—of policing. First of all, the old-style “militia” were not only held in generally low esteem, they were simply not very good at doing their job. Addressing their shortcomings not only helps bolster the Kremlin’s bases for technocratic legitimacy, it also brings associated advantages in establishing a more productive environment for economic development and addressing the security risks to be found in endemic corruption. As a result, on March 1, 2011, a new Law on the Police came into effect that not only saw their name changed back from the revolutionary term “militia,” but also mandated a 20 percent reduction in their total strength but pay rises for the rest, new training, and more people-friendly procedures.<sup>73</sup> Behind the new law, though, was also a concern about control of the police, a belief that they were not always in control of the center. In 2008, for example, Special Purpose Mobile Unit (OMON) riot police had to be flown 3,750 miles from Moscow to the Russian Far East when the Vladivostok leadership and police decided not to disperse protesters. Whereas in the past local authorities paid a share of police budgets—and often expected a say as a result—now it is all covered by the federal treasury (which reduced its subsidies to the regions to make up the difference). The new reshuffle of the MVD was also an opportunity to reassert a degree of power by culling the senior ranks of the ministry, with six of eight deputy ministers reshuffled.<sup>74</sup> In other words, this was a reform as much motivated by a desire to consolidate Kremlin control over the law-enforcement agencies as by any hope of making them more transparent, democratic, responsive, or effective.

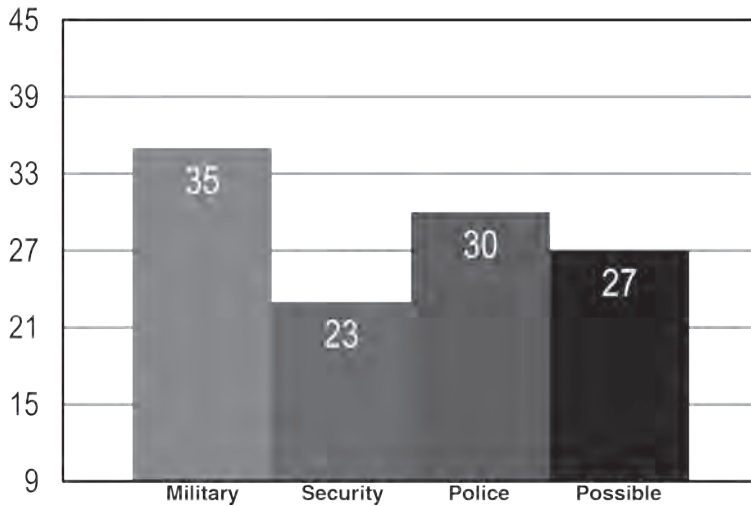
Even so, it is still highly questionable how much real control the center has over grass-roots law en-

forcement and even over major structures, especially given the periodic turf wars between elements of the MVD, the Federal Counter-Narcotics Service (FSKN), the Procurator General’s Office, and other law enforcement agencies.<sup>75</sup> Nonetheless, the score is still a respectable 30, driven largely by a changing appreciation of the advantages in change. Medvedev demonstrated a clear awareness that “legal nihilism” and inefficient or corrupt policing had a sharply negative impact on economic development and – by driving or keeping business underground – also the tax base.<sup>76</sup> Although Putin may prove less interested in police reform and its practical value, the Kremlin can certainly afford it. The real question will be how far it can drag the force behind it. See Figure 3-3.



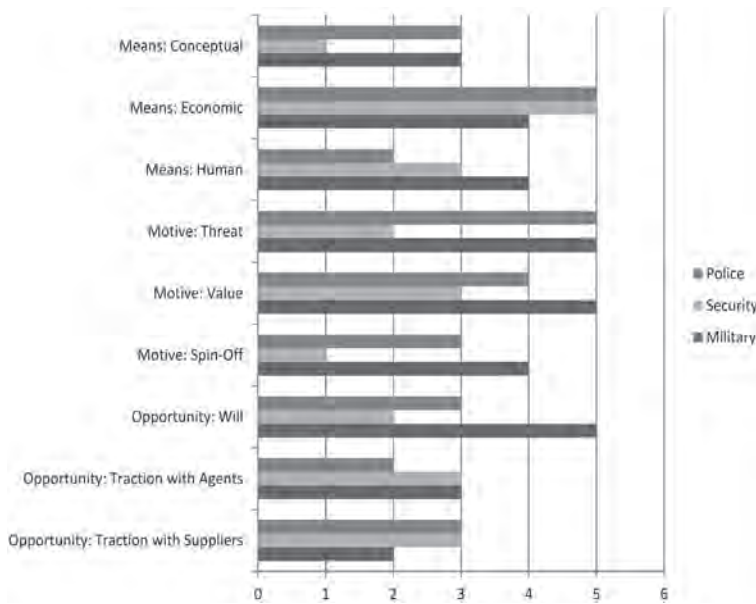
**Figure 3-3. Reform Prospects: The Police.**

A direct comparison makes the distinctions even more clear, with a baseline score of 9 (all “No” responses) and a pretty low divider of a 27 (all “Possible” responses). See Figure 3-4.



**Figure 3-4. Comparison of Reform Prospects.**

In short, even a relatively positive reading – this is, after all, a question of the *potential* of reform, not a hard prediction as to whether reform will be achieved – would suggest that military reform, while not easy, is most credible. The *Sledovatel'* would presumably even now be bringing in the suspect to browbeat or simply beat a confession out of him. Police reform is certainly possible, although as the final tabulation suggests, the key issue relate to opportunity and mastering the rank-and-file law enforcers. However, reform of the security and intelligence apparatus—as opposed to simple evolutionary development thanks to new resources or technological improvements—seems as distant as ever. See Figure 3-5.



**Figure 3-5. A Comparison of the Detailed Results.**

## ENDNOTES - CHAPTER 3

1. *RIA Novosti*, February 15, 2008.

2. For an excellent analysis of the war, see Ariel Cohen and Robert Hamilton, *The Russian Military and the Georgian War: lessons and implications*, Carlisle, PA: Strategic Studies Institute, U.S. Army War College, June 2011. See also Roger McDermott, "Russia's Conventional Armed Forces and the Georgian War," *Parameters*, Vol. 39, No. 1, 2009.

3. Interview on *NTV*, August 31, 2008.

4. *RIA Novosti*, December 10, 2008.

5. *RIA Novosti*, October 14, 2008.

6. *Reuters*, December 18, 2008.

7. *Nezavisimaya gazeta*, March 16, 2011.
8. Dale Herspring, "Is Military Reform in Russia for 'Real'? Yes, But . . .," in Stephen Blank and Richard Weitz, eds., *The Russian Military Today and Tomorrow*, Carlisle, PA: Strategic Studies Institute, U.S. Army War College, July 2010, p. 151.
9. The legend of the *Dolchstoss* was popularized by nationalists after World War I, who claimed that Germany had not been militarily defeated but instead betrayed by politicians, Jews, leftists, and other unpatriotic "November Criminals" (after the timing of the November 1918 armistice).
10. For an especially effective recent example, see Rod Thornton, *Military Modernization and the Russian Ground Forces*, Carlisle, PA: Strategic Studies Institute, U.S. Army War College, June 2011.
11. Mark Galeotti, "Force Projection," *Jane's Intelligence Review*, Vol. 22, No. 2, 2010; Mikhail Tsypkin, "What's New In Russia's New Military Doctrine?" *RFE/RL*, February 27, 2010, available from [www.rferl.org/content/Whats\\_New\\_In\\_Russias\\_New\\_Military\\_Doctrine/1970150.html](http://www.rferl.org/content/Whats_New_In_Russias_New_Military_Doctrine/1970150.html); Stephen Blank, ed., *Russian Military Politics and Russia's 2010 Defense Doctrine*, Carlisle, PA: Strategic Studies Institute, U.S. Army War College, March 2011.
12. *Reuters*, June 27, 2010.
13. *Odnako*, February 15, 2010. The one exception to this conversion is the 18th Machine Gun Division based in the Kurile Islands.
14. *Nezavisimoe voennoe obozrenie*, June 23, 2011.
15. *Voenno-promyshlennyyi kur'er*, March 30, 2011.
16. *Segodnya*, August 6, 2009.
17. *ITAR-TASS*, December 13, 2010; *RIA Novosti*, November 25, 2010. For a good general assessment of the figures, see Stephen Blank, "Lurching Toward Militarization: Russian Defense Spending in the Coming Decade," *Eurasia Daily Monitor*, January 5, 2011.

18. World Bank, *Global Economic Prospects 2011*, available from [web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/EXTGBLPROSPECTSAPRIL/0,,menuPK:659178~pagePK:64218926~piPK:64218953~theSitePK:659149,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/EXTGBLPROSPECTSAPRIL/0,,menuPK:659178~pagePK:64218926~piPK:64218953~theSitePK:659149,00.html).

19. *Top 10 largest economies in 2020*, Euromonitor, July 7, 2010, available from [euromonitor.typepad.com/files/gdp-rank-final.pdf](http://euromonitor.typepad.com/files/gdp-rank-final.pdf); *The World in 2050*, PwC, January 2011, available from [www.pwc.com/en\\_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf](http://www.pwc.com/en_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf).

20. *SIPRI Yearbook 2011*, Stockholm, Sweden: Stockholm International Peace Research Institute, 2011, p. 163.

21. *Rossiiskaya gazeta*, October 15, 2008.

22. *Krasnaya zvezda*, December 29, 2010; *Interfax*, February 2, 2011.

23. The Aerospace Defense Command will, in Medvedev's words, "combine the existing air defense and missile defense networks, missile early-warning systems and airspace monitoring systems under a unified strategic command." *RIA Novosti*, November 30, 2010.

24. See Roger McDermott, "Russia's "Spineless" Army: Paper Sergeants," *Eurasia Daily Monitor*, April 19, 2011.

25. *Izvestiya*, October 2, 2011.

26. Dmitry Gorenburg, "The Russian Military's Manpower Problem," *Russian Military Reform* blog, July 29, 2011, available from [russiamil.wordpress.com/2011/07/29/the-russian-militarys-manpower-problem/](http://russiamil.wordpress.com/2011/07/29/the-russian-militarys-manpower-problem/).

27. *Nezavisimaya gazeta*, March 1, 2010.

28. *Moskovsky Komsomolets*, March 29, 2011.

29. Well explained in Thornton, *Military Modernization and the Russian Ground Forces*, pp. 8-10.



30. See Aleksei Arbatov and Vladimir Dvorkin, *Novaya Voennaya Reforma Rossii*, Moscow, Russia: Moscow Carnegie Center, 2011, pp. 21-25.

31. *Interfax*, October 5, 2011.

32. *Trud*, January 19, 2011.

33. *Izvestiya*, October 2, 2011.

34. *Obretnie budushchego: strategiya 2012*, INSOR, 2011, available from [www.insor-russia.ru/files/Finding\\_of\\_the\\_Future%20FULL\\_.pdf](http://www.insor-russia.ru/files/Finding_of_the_Future%20FULL_.pdf).

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57. Military Prosecutor Fridinskii included defense industry contractors among those he claimed were stealing up to 20 percent of the budget, which is not a figure I am able to assess, so the outstanding 6-10 percent may be accounted for by their sticky fingers instead.

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## ABOUT THE CONTRIBUTORS

STEPHEN J. BLANK has served as the Strategic Studies Institute's expert on the Soviet bloc and the post-Soviet world since 1989. Prior to that he was Associate Professor of Soviet Studies at the Center for Aerospace Doctrine, Research, and Education, Maxwell Air Force Base, AL; and taught at the University of Texas, San Antonio, and at the University of California, Riverside. Dr. Blank is the editor of *Imperial Decline: Russia's Changing Position in Asia*, coeditor of *Soviet Military and the Future*, and author of *The Sorcerer as Apprentice: Stalin's Commissariat of Nationalities, 1917-1924*. He has also written many articles and conference papers on Russia, the Commonwealth of Independent States, and Eastern European security issues. Dr. Blank's current research deals with proliferation and the revolution in military affairs and with energy and security in Eurasia. His two most recent books are *Russo-Chinese Energy Relations: Politics in Command*, London, UK: Global Markets Briefing, 2006; and *Natural Allies? Regional Security in Asia and Prospects for Indo-American Strategic Cooperation*, Carlisle, PA: Strategic Studies Institute, U.S. Army War College, 2005. Dr. Blank holds a B.A. in history from the University of Pennsylvania, and an M.A. and Ph.D. in history from the University of Chicago.

MARK GALEOTTI is Clinical Professor of Global Affairs and Academic Chair of New York University's Center for Global Affairs. An expert on contemporary Russian security affairs ranging from its armed forces and intelligence services through to the impact of organized crime and corruption on its capabilities, he is also an historian and is working on a study of orga-

nized crime through the ages. He was attached in an advisory role to the Foreign & Commonwealth Office, where his remit covered Russian foreign and security policy and post-Soviet organized crime. Dr. Galeotti has taught at Keele University in the United Kingdom (UK). He has been Visiting Professor of Public Security at the School of Criminal Justice, Rutgers-Newark, and a fellow of Oxford University's Extra-Legal Governance Institute. He moved to New York University in 2008. Dr. Galeotti has published widely, with 12 authored and edited books (most recently, *The Politics of Security in Modern Russia*) as well as numerous articles in the academic, professional, and popular press, including a monthly column on post-Soviet affairs in *Jane's Intelligence Review* in the period 1991-2006, and now a column in the *Moscow News*. Dr. Galeotti combines his scholarship with practical work with governments, corporations, and law enforcement agencies (including the British National Criminal Intelligence Service, the U.S. Federal Bureau of Investigation, and Interpol). Dr. Galeotti studied history at Robinson College, Cambridge University, UK, and holds a Ph.D. in politics from the London School of Economics

STEVEN ROSEFIELD is Professor of Economics at the University of North Carolina, Chapel Hill; a member of the Russian Academy of Natural Sciences (RAEN); and Director of the Japan foundation Project on the Global Financial Crisis's Impact on Asia. His most recent books include *Russia in the 21st Century: The Prodigal Superpower* (Cambridge University Press, 2005); *Masters of Illusion* (with Quinn Mills), Cambridge University Press, 2007); *Russian Economy* (Wiley, 2008); *Russia Since 1980* (with Stefan Hedlund) (Cambridge University Press, 2009); *Red Holocaust* (Routledge,

2010); *Two Asias* (edited with Masaaki Kuboniwa and Satoshi Mizobata, World Scientific, 2011); *Prevention and Crisis Management* (edited with Masaaki Kuboniwa and Satoshi Mizobata, World Scientific 2012); and *Democracy and its Elected Enemies* (with Quinn Mills), (Cambridge University Press, 2012).

LILIA SHEVTSOVA is Chair of the Domestic Policy Program, Moscow Carnegie Center, and Associate Fellow at the Chatham House, the Royal Institute for International Affairs. She is author of several books, including *Yeltsin's Russia: Myths and Illusions*; *Putin's Russia*; *Russia – Lost in Transition: The Yeltsin and Putin Legacies*; *Lonely Superpower, Change or Decay: Russia's Dilemma's and the West's Response* (in co-authorship with Andrew Wood).



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